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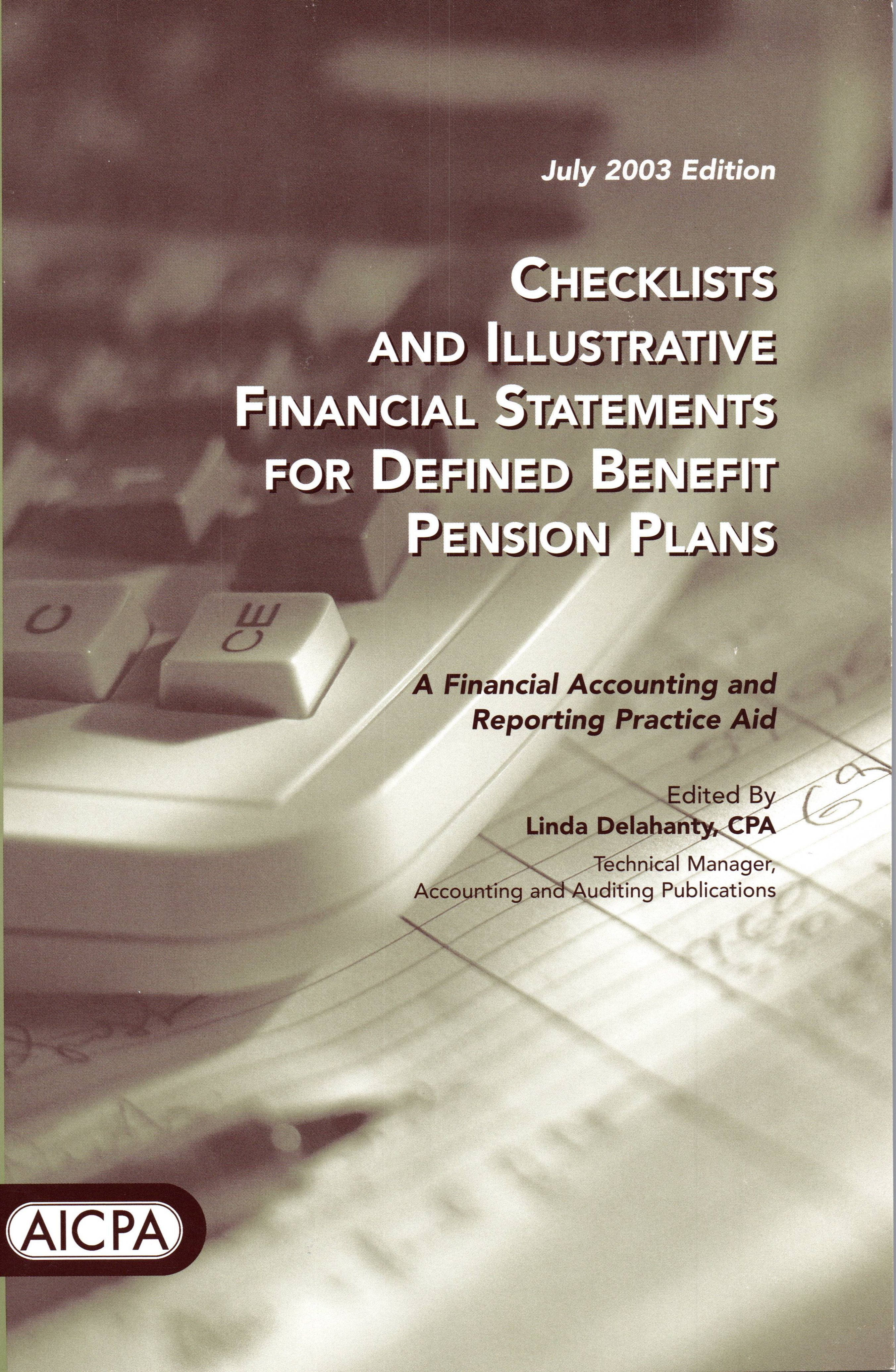

July 2003 Edition

Checklists and Illustrative Financial Statements for Defined Benefit Pension Plans

A Financial Accounting and Reporting Practice Aid

Edited By
Linda Delahanty, CPA
Technical Manager,
Accounting and Auditing Publications

American Institute of Certified Public Accountants

AICPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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Checklists and Illustrative Financial Statements for Defined Benefit Pension Plans has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.

AICPA

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FSP Section 7000

Checklists and Illustrative Financial Statements for Defined Benefit Pension Plans

Description

.01 Employee benefit plans include defined benefit pension plans, defined contribution pension plans, and health and welfare benefit plans. Defined benefit pension plans provide a promise to pay to participants specified benefits that are determinable and are based on such factors as age, years of service, and compensation.

.02 Defined benefit pension plans may be single employer plans or multiemployer plans. In addition, these plans may be funded through accumulated contributions and investment income (self-funded plans), insurance contracts (insured plans), or a combination of both (split-funded plans). Contributions may be required from both employers and participants (contributory plans) or from employers only (noncontributory plans).

.03 The Pension Benefit Guaranty Corporation (PBGC) guarantees participants in most defined benefit pension plans against the loss of certain pension benefits if the plan terminates, and it administers terminated plans in certain circumstances.

Regulatory Requirements

.04 The Employee Retirement Income Security Act of 1974 (ERISA) provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans. Under ERISA, the Department of Labor (DOL) and the Internal Revenue Service (IRS) have the authority to issue regulations covering reporting and disclosure requirements.

.05 ERISA generally requires that the administrator of an employee benefit plan prepare and file various documents with the DOL, the IRS, and the PBGC. The annual report to be filed for employee benefit plans generally is the Form 5500 Series. The Form 5500, a joint-agency form developed by the IRS, the DOL, and the PBGC, may be used to satisfy the annual reporting requirements of the Internal Revenue Code (IRC) and Titles I and IV of ERISA. (See FSP section 7000.12–.14 for a discussion of the Form 5500.)

Practice Tip

Effective February 3, 2003, the DOL changed the name of the Pension and Welfare Benefits Administration (PWBA) to the Employee Benefits Security Administration (EBSA).

Financial Accounting and Reporting Standards

.06 FASB Statement of Financial Accounting Standards (SFAS) 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended by SFAS 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts*, is a source of established generally accepted accounting principles for defined benefit pension plans. The AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans (the Guide)*, also is a source of established generally accepted accounting principles for defined benefit pension plans.

.07 SOP 99-2, *Accounting for and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans*, specifies the accounting for and disclosure of 401(h) features of defined benefit pension plans, by both defined benefit pension plans and health and welfare benefit plans.

.08 In April 2003, the FASB issued SFAS 149, *Amendment of Statement 133 on Derivative Investments and Hedging Activities.* The statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. In particular, SFAS 149 amends SFAS 133 to say the following:

> *Certain investment contracts.* A contract that is accounted for under either paragraph 4 of FASB Statement No. 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts*, or paragraph 12 of FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended by Statement 110, is not subject to this Statement. Similarly, a contract that is accounted for under either paragraph 4 or paragraph 5 of AICPA Statement of Position 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, is not subject to this Statement. Those exceptions apply only to the party that accounts for the contract under Statement 35, Statement 110, or SOP 94-4.

SFAS 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions as described in SFAS 149, and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively.

Accounting and Reporting by Defined Benefit Pension Plans

.09 Defined benefit pension plan financial statements intended to be presented in accordance with generally accepted accounting principles should be prepared on the accrual basis and should include the following:

- A statement of net assets available for benefits as of the end of the plan year (ERISA requires that this statement be presented in comparative form)
- A statement of changes in net assets available for benefits for the year then ended
- Information regarding the actuarial present value of accumulated plan benefits
- Information regarding the effects, if significant, of certain factors affecting the year-to-year change in accumulated plan benefits

.10 Information regarding the actuarial present value of accumulated plan benefits and changes therein may be presented in the financial statements or in the notes. Further, the accumulated benefit information may be presented as of the beginning or end of the plan year. If the information is as of the beginning of the year, prior year statements of net assets and changes therein are also required. Otherwise, comparative statements are not required (however, see paragraph .13 below).

.11 Except as noted in the following paragraph, plan investments are generally presented at their fair value at the reporting date and assets used in the administration of the plan are stated at cost less accumulated depreciation and amortization.

.12 Insurance contracts, defined in SFAS 60, *Accounting and Reporting by Insurance Enterprises*, should be presented in the same manner as specified in the annual report filed by a plan with certain governmental agencies pursuant to ERISA, consistent with the requirements of DOL Form 5500. A plan not subject to ERISA should present its insurance contracts as if the plan were subject to the reporting requirements of ERISA.

.13 In addition to the reporting requirements of SFAS 35, as amended, defined benefit pension plans may have reporting requirements under ERISA. Beginning July 1, 2000, the DOL took over the processing responsibilities for the Form 5500 and Form 5500-EZ from the IRS. The DOL's ERISA Filing Acceptance System (EFAST) processes the Form 5500 in two computer scannable formats: *machine print* and *hand print* (the questions are the same, only the appearance is different). Machine print forms are completed using computer software from EFAST approved vendors and can be filed electronically or by mail (including certain private delivery services). Hand print forms may be completed by hand, typewriter, or by using computer software from EFAST approved vendors. Hand print forms can be filed by mail (including certain private delivery services); however, they *cannot* be filed electronically. The list of approved software vendors on the EFAST Web site is updated as software is approved for plan year 2002 filings. For assistance, filers may also contact EBSA's help desk toll free at (866) 463-3278.

.14 The Form 5500 and Form 5500-EZ for plan year 2002 remain essentially unchanged from 2001. See the Audit Risk Alert, *Employee Benefit Plans Industry Developments—2003* (product no. 022413) for a summary of the changes. The Form 5500 continues to require that certain supplemental schedules be attached to the annual Form 5500 filing. The information reported in these schedules has not changed from prior years. However, reporting has now been standardized in that some of these schedules are now required to be reported on Schedule G, Financial Transactions Schedules, of Form 5500. The following schedules are required to be reported on Schedule G:

- Schedule G, Part I—Schedule of Loans or Fixed Income Obligations in Default or Classified as Uncollectible
- Schedule G, Part II—Schedule of Leases in Default or Classified as Uncollectible
- Schedule G, Part III—Schedule of Nonexempt Transactions

The following schedules are still required to be attached to the Form 5500 filing:

- Schedule H, line 4i—Schedule of Assets (Held at End of Year)[1]
- Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within the Plan Year)
- Schedule H, line 4j—Schedule of Reportable Transactions[2]

Please refer to the Instructions to Form 5500 for schedule requirements. Information copies of the forms, schedules and instructions are available on EBSA's Web site at www.efast.dol.gov. Filers may also order forms and IRS publications twenty-four hours a day, seven days a week, by calling 800-TAX-FORM (800-829-3676).

Note: This publication was extracted from sections 7000 through 7400 of the AICPA *Financial Statement Preparation Manual* (FSP).

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[1] **Practice Tip** — Historical cost information is not required on the Schedule H, line 4i—Schedule of Assets (Held at End of Year) for participant-directed investments.

[2] **Practice Tip** — Participant- or beneficiary-directed transactions are not required to be taken into account for purposes of preparing the schedule of reportable transactions. In a plan's initial year, the 5 percent threshold for the schedule of reportable transactions is based on the *end-of-year* balance of the plan's assets.

FSP Section 7100
Instructions

General

.01 This publication includes:

- **Financial Statements and Notes Checklist**—For use by preparers of defined benefit pension plan financial statements and by practitioners who audit them as they evaluate the adequacy of disclosures.
- **Auditors' Report Checklist**—For use by auditors in reporting on audited defined benefit pension plan financial statements.
- **Illustrative Financial Statements and Auditor's Reports**—Illustrating a defined benefit pension plan financial statement and auditor's reports.

.02 The checklists and illustrative financial statements have been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as nonauthoritative practice aids to be used as a memory jogger to aid in the audit of financial statements of defined benefit pension plans.

> The financial statements and notes checklists and auditor's report checklist have been updated to include guidance relevant to employee benefit plans contained in pronouncements issued through:
>
> - Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 150, *Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity*
> - FASB Interpretation (FASBI) No. 46, *Consolidation of Variable Interest Entities*
> - FASB Technical Bulletin (FTB) No. 01-1, *Effective Date for Certain Financial Institutions of Certain Provisions of Statement 140 Related to the Isolation of Transferred Financial Assets*
> - FASB Emerging Issues Task Force (EITF) consensuses adopted through the April 2003 EITF meeting
> - AICPA Statement on Auditing Standards (SAS) No. 101, *Auditing Fair Value Measurements and Disclosures*
> - AICPA Statement of Position (SOP) 02-2, *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator*
> - AICPA Practice Bulletin (PB) No. 15, *Accounting by the Issuer of Surplus Notes*
> - AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (with conforming changes as of March 1, 2003)
>
> The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

Instructions

.03 The checklists consist of a number of questions or statements that are accompanied by references to the applicable authoritative pronouncements. The checklists provide for checking off or initialing each question or point to show that it has been considered. Users should check: "yes" if the disclosure has been appropriately made, "no" if the disclosure has not been made, or "n/a" if the disclosure is not applicable to the engagement. The auditor should consider the effect of a "no" answer on his/her report. A "no" answer that is material to the financial statements may warrant a departure from an unqualified opinion. (See paragraphs 20–63 of SAS No. 58, *Reports on Audited Financial Statements*, as amended [AICPA, *Professional Standards*, vol. 1, AU sec. 508.20–.63].) If a "no" answer is checked, the authors recommend that a note be made in the right margin to explain why the disclosure was not made (for example, if the disclosure was not made because it was not material to the financial statements, write "not material" in the right margin). The right margin may be used for other remarks or comments as appropriate, including cross-referencing to applicable workpapers where the support to a disclosure may be found. Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.

.04 The checklist is not a substitute for the authoritative pronouncements. Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated nor do they represent minimum requirements. Pronouncements deemed remote for defined benefit plans are not included in this document. The checklists and illustrative financial statements are "tools" and in no way represent official positions or pronouncements of the AICPA.

.05 If you have further questions, call the AICPA Technical Hotline at 1-888-777-7077.

FSP Section 7200
Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

AAG =	AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (with conforming changes as of March 1, 2003)
AC =	Reference to section number in *FASB Accounting Standards—Current Text*
APB =	Accounting Principles Board Opinion
ARB =	Accounting Research Bulletin
AU =	Reference to section number in *AICPA Professional Standards* (vol. 1)
CFR =	Code of Federal Regulations
DOL =	Department of Labor
ERISA =	Employee Retirement Income Security Act of 1974
FASBI =	FASB Interpretation
PBGC =	Pension Benefit Guaranty Corporation
SAS =	AICPA Statement on Auditing Standards
SFAS =	FASB Statement of Financial Accounting Standards
SOP =	AICPA Statement of Position

.03 Checklist Questionnaire:

This financial statement disclosure checklist is organized into the sections listed below. Carefully review the topics listed and consider whether they represent potential disclosure items for the plan. Place a check mark by the topics or sections that are applicable and complete those sections of the checklist. Other sections may be marked "N/A" or left blank. For example, if the plan had a change in accounting principle, place a check mark by the section "Changes in Accounting" and complete that section of the checklist. On the other hand, if the plan did not have a change in accounting principle, do not place a check mark by "Changes in Accounting" and skip that section when completing the checklist.

	Place ✓ by Applicable Sections
• General	
A. Titles and References	______
B. Comparative Financial Statements	______
• Statement of Net Assets Available for Benefits	
A. General	______
B. Investments	______
C. Assets Held in 401(h) Account	______
D. Operating Assets	______
E. Contributions Receivable and Uncollectible Amounts	______
F. Cash	______
G. Liabilities	______

Place ✓ by Applicable Sections

- Statement of Changes in Net Assets Available for Benefits
  - A. General ______
  - B. Contributions ______
  - C. Investment Earnings ______
  - D. 401(h) Account Assets ______
  - E. Transfer of Assets to or From Other Plans ______
- Statement of Accumulated Plan Benefits
  - A. Actuarial Present Value of Accumulated Plan Benefits ______
  - B. Accumulated Contributions of Present Employees ______
- Statement of Changes in Accumulated Plan Benefits
  - A. Presentation of Changes in the Actuarial Present Value of Accumulated Plan Benefits ______
  - B. Changes in Actuarial Assumptions ______
  - C. Benefits Paid and Other ______
- Summary of Significant Accounting Policies
  - A. Accounting Policies ______
  - B. Certain Significant Estimates ______
- Other Financial Statement Disclosures
  - A. Changes in Accounting ______
  - B. Commitments and Contingencies ______
  - C. Current Vulnerability Due to Certain Concentrations ______
  - D. Description of Pension Plan ______
  - E. Description of Pension Plan Amendments ______
  - F. Financial Instruments ______
  - G. Income Tax Status ______
  - H. Plan Terminations ______
  - I. Related-Party Transactions ______
  - J. Subsequent Events ______
  - K. Transfers and Servicing of Financial Assets and Securitizations ______
  - L. Other Matters ______
- ERISA Reporting Requirements
  - A. Form 5500 Series Report ______
  - B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Pension Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA ______
  - C. Required Financial Statements and Supporting Schedules ______
- Auditors' Report Checklist ______
- Illustrative Financial Statements and Auditor's Reports ______

Yes *No* *N/A*

General

A. Titles and References

1. For a full presentation in conformity with generally accepted accounting principles (GAAP), are the following financial statements presented:

	Yes	No	N/A
a. A "Statement of Net Assets Available for Benefits" as of the end of the plan year? [ERISA requires that this statement be presented in comparative form]	____	____	____
b. A "Statement of Changes in Net Assets Available for Benefits" for the year then ended?	____	____	____
c. A "Statement of Accumulated Plan Benefits" as of either the beginning (amounts as of the end of the preceding year) or end of the plan year? [SFAS 35 recommends reporting as of the end of the plan year]	____	____	____
d. A "Statement of Changes in Accumulated Plan Benefits"? [SFAS 35, pars. 6 and 8 (AC Pe5.105 and .107); AAG, par. 2.08]	____	____	____

Practice Tip

The information in Steps *c.* and *d.* above can be alternatively disclosed in the notes to the financial statements.

	Yes	No	N/A
2. Is the information regarding both the net assets available for benefits and the actuarial present value of accumulated plan benefits presented as of the same date? [SFAS 35, par. 7 (AC Pe5.106)]	____	____	____
3. Is the information regarding both the changes in net assets available for benefits and the changes in the actuarial present value of accumulated plan benefits presented for the same period? [SFAS 35, par. 7 (AC Pe5.106)]	____	____	____
4. If accumulated plan benefit information is presented as of the beginning of the year, have the prior year statements of net assets and changes therein also been included? [SFAS 35, par. 7 (AC Pe5.106); AAG par. 2.25]	____	____	____
5. Do the plan financial statements include information about the plan resources and how the stewardship responsibility for those resources has been discharged, and other factors necessary for users and participants to understand the information provided? [SFAS 35, par. 5 (AC Pe5.104)]	____	____	____
6. Is each financial statement suitably titled? [Generally Accepted]	____	____	____
7. Does each statement include a reference to the notes, which are an integral part of the financial statements? [Generally Accepted]	____	____	____

B. Comparative Financial Statements

	Yes	No	N/A
1. Are comparative statements presented if appropriate?[1] [ARB 43, Ch. 2A, pars. 1 and 2 (AC F43.101 and .102)]	____	____	____

[1] ERISA requires that the "Statement of Net Assets Available for Benefits" be presented in comparative form. In addition, if the accumulated benefit information is presented as of the beginning of the plan year, prior year statements of net assets and changes therein are required. [AAG, pars. 2.08, fn. 2, and 2.25]

	Yes	No	N/A
2. Are the notes and other disclosures included in the financial statements of the prior year(s) presented, repeated, or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	____	____	____
3. If changes occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	____	____	____

Statement of Net Assets Available for Benefits

A. General

	Yes	No	N/A
1. Is the information in the "Statement of Net Assets Available for Benefits" presented in such reasonable detail as is necessary to identify the plan's resources that are available for benefits? [SFAS 35, par. 9 (AC Pe5.108)]	____	____	____

B. Investments

	Yes	No	N/A
1. Are the plan's investments presented in enough detail to identify the types of investments and whether reported fair values have been measured by quoted prices in an active market or otherwise determined? [SFAS 35, par. 13 (AC Pe5.112); AAG, par. 2.14]	____	____	____
2. Are the following investments reported as separate line items in the "Statement of Net Assets Available for Benefits":			
a. Government securities?	____	____	____
b. Short-term securities?	____	____	____
c. Corporate bonds?	____	____	____
d. Common stocks?	____	____	____
e. Mortgages?	____	____	____
f. Real estate?	____	____	____
g. Investments in bank common and commingled trust funds?	____	____	____
h. Master trusts?	____	____	____
i. Investments in contracts with insurance companies, including separate accounts, deposit administration, and immediate participation guarantee (IPG) contracts? [AAG, par. 2.14]	____	____	____

Practice Tip

SFAS 110 requires defined benefit pension plans to report investment contracts at fair value. Insurance contracts should continue to be reported at either fair value or at amounts determined by the insurance enterprise (contract value). SFAS 110 does not apply to deposit administration and immediate participation guarantee contracts entered into before March 20, 1992. In April 2003, the FASB issued SFAS 149, *Amendment of Statement 133 on Derivative Investments and Hedging Activities*. SFAS 149 amends SFAS 133 to say that a contract that is accounted for under either paragraph 4 of SFAS 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts*, or paragraph 12 of SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended by SFAS 110, is not subject to SFAS 133. Similarly, a contract that is accounted for under either paragraph 4 or paragraph 5 of SOP 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, is not subject to SFAS 133. Those exceptions apply only to the party that accounts for the contract under SFAS 35, SFAS 110, or SOP 94-4. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions as described in SFAS 149, and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively.

	Yes	No	N/A
3. For contracts with insurance companies that are included in plan assets, are restrictions on the use of the assets disclosed? [AAG, par. 7.47*c*]	____	____	____
4. Are investments that represent 5 percent or more of total net assets available for benefits separately identified in the financial statements or notes thereto? [SFAS 35, par. 28g (AC Pe5.127g); AAG, par. 2.31*g*]	____	____	____

Practice Tip

Listing all investments in Schedule H, line 4i—Schedule of Assets (Held at End of Year) required by ERISA does not eliminate the requirement to include this disclosure in the financial statements. [AAG, par. 2.31*g*]

	Yes	No	N/A
5. Do disclosures include investments of a master trust detailed by general type, such as government securities, short-term securities, corporate bonds, common stocks, mortgages, and real estate, as of the date of each "Statement of Net Assets Available for Benefits" presented? [AAG, par. 2.33]	____	____	____
6. Do disclosures include a description of the basis used to allocate net assets, net investment income, gains and losses to participating plans, and the plan's percentage interest in a master trust as of the date of each "Statement of Net Assets Available for Benefits"? [AAG, par. 2.33]	____	____	____
C. Assets Held in 401(h) Account			
1. Are the 401(h) net assets shown as a single line item on the face of the statement of net assets available for plan benefits? [SOP 99-2, par. 8; AAG, par. 2.41]	____	____	____
2. Do the notes to the financial statements disclose the nature of the assets related to the 401(h) account, and the fact that the assets are available only to pay retiree health benefits? [SOP 99-2, par. 13; AAG, par. 2.43]	____	____	____
D. Operating Assets			
1. For depreciable assets, do the financial statements include disclosure of:			
a. Depreciation expense for each period?	____	____	____
b. Balances of major classes of depreciable assets by nature or function?	____	____	____
c. Accumulated depreciation, either by major classes of assets or in total?	____	____	____
d. The method or methods used in computing depreciation for each major class of depreciable assets? [APB 12, par. 5a–d (AC D40.105a–d)]	____	____	____
2. If an impairment loss is recognized for assets to be held and used, or for assets to be disposed of, are disclosures made in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, paragraphs 25–27, 33, and 42–48?[2] [SFAS 144, pars. 25–27, 33, and 42–48 (ACI08.160 and 161, AC D60.104 and 110, ACI14.102–106 and AC D60.118–121)]	____	____	____

[2] SFAS 144 establishes accounting and reporting for the impairment or disposal of long-lived assets to be held and used and assets to be disposed of. The required disclosures of SFAS 144 have not been included in the checklist due to the determination that many of the disclosure requirements would not be applicable to defined benefit pension plans however if the plan recognizes an impairment of long-lived assets please refer to SFAS 144, paragraphs 25-27, 33, and 42-48 for the disclosure requirements.

	Yes	No	N/A

E. Contributions Receivable and Uncollectible Amounts

1. Are the following contributions receivable separately identified:
   a. Receivables from employer(s)? ____ ____ ____
   b. Receivables from participants? ____ ____ ____
   c. Other sources of funding pursuant to formal commitments as well as legal or contractual requirements? ____ ____ ____
   [SFAS 35, par. 10 (AC Pe5.109); AAG, par. 2.19]

2. Do contributions receivable include an allowance for uncollectible amounts? ____ ____ ____
   [SFAS 35, par. 91 (AC Pe5.109); AAG, pars. 2.19 and 2.20]

F. Cash

1. Is separate disclosure made of restricted cash? ____ ____ ____
   [ARB 43, Ch. 3A, par. 6 (AC B05.107)]

2. Are restrictions on cash properly disclosed? ____ ____ ____
   [SFAS 5, par. 18 (AC C59.120)]

G. Liabilities

1. Are liabilities other than for benefits (such as securities purchased, income taxes payable by the plan, and other expenses, for example, third-party administrator fees) deducted in arriving at net assets available for plan benefits? ____ ____ ____
   [AAG, par. 2.23]

Practice Tip

Benefit amounts should not be accrued as liabilities. [AAG, par. 2.23]

---

2. Consider stating separately:
   a. Due to broker for securities purchased? ____ ____ ____
   b. Accounts payable? ____ ____ ____
   c. Accrued expenses? ____ ____ ____
   [AAG, par. 2.23 and App. D, Exhibits D-1, D-5, and D-9]

3. Net assets related to the 401(h) account must be deducted before arriving at the total of net assets available for pension benefits:
   a. In deducting those net assets, are the amounts relating to 401(h) features presented as a separate line item in the liabilities section of the statement of net assets available for pension benefits? ____ ____ ____
   b. Does the financial statement caption clearly denote that the net assets held in the 401(h) account relate to obligations of the health and welfare plan or arrangement? ____ ____ ____
   [SOP 99-2, par. 8; AAG, par. 2.41]

Statement of Changes in Net Assets Available for Benefits

A. General

1. Does the "Statement of Changes in Net Assets Available for Benefits" (or the notes to the financial statements) present the net appreciation

	Yes	No	N/A
(depreciation) in the fair value of each significant type of investment, segregated between investments whose fair values have been measured by quoted market prices in an active market and those whose fair values have been otherwise determined? [SFAS 35, par. 15 (AC Pe5.114a); AAG, pars. 2.14 and 2.24]	____	____	____
2. At a minimum, does the "Statement of Changes in Net Assets Available for Benefits" disclose:			
a. Investment income (exclusive of changes in fair value)?	____	____	____
b. Contributions from employer(s), segregated between cash and noncash contributions?	____	____	____
c. Contributions from participants, including those transmitted by the sponsor?	____	____	____
d. Contributions from other sources (e.g., state subsidies or federal grants)?	____	____	____
e. Benefits paid to participants?	____	____	____
f. Payments to insurance companies to purchase contracts that are excluded from plan assets?	____	____	____
g. Administrative expenses?	____	____	____
h. Other changes? (For example, transfers of assets to or from other plans, if significant.) [SFAS 35, par. 15 (AC Pe5.114); AAG, par. 2.24]	____	____	____

Practice Tip

Dividend income related to contracts with insurance companies that are excluded from plan assets may be netted against Step 2.*f.* above. [SFAS 35, pars. 28e and 15g, fn. 9 (AC Pe5.127e and .114g, fn. 13)]

B. Contributions

	Yes	No	N/A
1. Is the nature of noncash contributions described, either parenthetically or in a footnote? [SFAS 35, par. 15c, fn. 8 (AC Pe5.114c, fn. 12)]	____	____	____

C. Investment Earnings

	Yes	No	N/A
1. Does the net appreciation (depreciation) in the fair value of investments (see Step A.1 above) include realized gains and losses on investments that were both bought and sold during the year?[3] [SFAS 35, par. 15, fn. 7 (AC Pe5.114, fn. 10); AAG, par. 2.24]	____	____	____
2. Is the net change in the fair value of each significant type of investment of a master trust and total investment income of the master trust by type (e.g., interest, dividends, etc.) disclosed for each period for which a "Statement of Changes in Net Assets Available for Benefits" is presented? [AAG, par. 2.33]	____	____	____

D. 401(h) Account Assets

	Yes	No	N/A
1. Does the statement of changes in net assets available for plan benefits:			
a. Show only the changes in net assets of the pension plan and not any of the components of the changes in the net assets in the 401(h) account?	____	____	____

[3] Gains and losses from investments sold need not be segregated from unrealized gains and losses relating to investments held at year-end. [AAG, par. 2.24*a*]

	Yes	No	N/A
b. Reflect only qualified transfers to the 401(h) account and/or any unused or unspent amounts (including allocated income) in the 401(h) account at the end of the year that were qualified transfers of excess pension plan assets that should have been but were not transferred back to the defined benefit pension plan? [SOP 99-2, par. 8; AAG, par. 2.41]	____	____	____

E. Transfer of Assets to or From Other Plans

1. If there are significant transfers of assets to or from other plans, are they disclosed? [AAG, par. 2.24]	____	____	____

Statement of Accumulated Plan Benefits

Practice Tip

The benefit information may be presented in a separate statement, combined with other information in the financial statements, or presented in a note to the financial statements. Regardless of the presentation, the benefit information should all be located in one place. [AAG, par. 2.28]

A. Actuarial Present Value of Accumulated Plan Benefits

1. Is the total actuarial present value of accumulated plan benefits as of the benefit information date segmented into at least the following categories:			
a. Vested benefits of participants currently receiving payments?	____	____	____
b. Other vested benefits?	____	____	____
c. Nonvested benefits? [SFAS 35, par. 22 (AC Pe5.121); AAG, par. 2.28]	____	____	____
2. Does the amount disclosed as vested benefits of participants currently receiving payments include those benefits due and payable as of the benefit information date? [SFAS 35, par. 22 (AC Pe5.121)]	____	____	____
3. Does information regarding accumulated plan benefits relate only to pension obligations and not to retiree health benefits, even in situations where separate financial statements are not prepared for the health and welfare benefit plan? [SOP 99-2, par. 9; AAG, par. 2.42]	____	____	____

B. Accumulated Contributions of Present Employees

1. If the plan is contributory, is the amount of active employees' accumulated contributions as of the benefit information date (including interest, if any) disclosed? [SFAS 35, par. 22 (AC Pe5.121); AAG, par. 2.28]	____	____	____
2. If interest has been credited on employees' contributions, is the rate(s) disclosed? [SFAS 35, par. 22 (AC Pe5.121); AAG, par. 2.28]	____	____	____

Yes *No* *N/A*

Statement of Changes in Accumulated Plan Benefits

Practice Tip

The changes in accumulated plan benefits may be presented in a separate statement or presented in the notes to the financial statements in either reconciliation or narrative format. [AAG, par. 2.29]

A. Presentation of Changes in the Actuarial Present Value of Accumulated Plan Benefits

1. If significant, is information disclosed regarding the effects of certain factors affecting the change in the actuarial present value of accumulated plan benefits from the preceding to the current benefit information date? ____ ____ ____
[SFAS 35, par. 25 (AC Pe5.124); AAG, par. 2.29]

2. At a minimum, do disclosures include the significant effects of such factors as:
   a. Plan amendments? ____ ____ ____
   b. Changes in the nature of the plan (e.g., as a result of a spinoff or merger)? ____ ____ ____
   c. Changes in actuarial assumptions?[4] ____ ____ ____

3. Are the significant effects of other factors identified, such as:
   a. Benefits accumulated? ____ ____ ____
   b. The increase (for interest) as a result of the decrease in the discount period? ____ ____ ____
   c. Benefits paid? ____ ____ ____
   [SFAS 35, par. 25 (AC Pe5.124)]

4. If any one factor is individually significant, is that factor separately disclosed? ____ ____ ____
[SFAS 35, par. 25 (AC Pe5.124)]

Practice Tip

Actuarial experience gains or losses may be included with the effects of additional benefits accumulated rather than being separately disclosed. [SFAS 35, par. 25, fn. 12 (AC Pe5.124, fn. 17)]

B. Changes in Actuarial Assumptions

1. For plans that measure the actuarial present value of accumulated plan benefits by insurance company rates pursuant to the approach described in paragraph 21 of SFAS 35 (AC Pe5.120), are the effects of the changes in actuarial assumptions reflected in changes in those insurance rates disclosed, if practicable? ____ ____ ____
[SFAS 35, par. 25, fn. 11 (AC Pe5.124, fn. 16)]

2. If the effects of changes in actuarial assumptions discussed in Step 1 above cannot be separately disclosed, are those effects included in benefits accumulated? ____ ____ ____
[SFAS 35, par. 25, fn. 12 (AC Pe5.124, fn. 17)]

[4] Changes in actuarial assumptions are to be viewed as changes in accounting estimates, and therefore previously reported amounts should not be restated. [AAG, par. 2.29]

	Yes	No	N/A

C. **Benefits Paid and Other**

1. Are amounts paid by the plan to an insurance company pursuant to a contract that is excluded from plan assets (including the purchase of annuities with amounts allocated from existing investments with the insurance company) included in benefits paid? [SFAS 35, par. 25 (AC Pe5.124)] ____ ____ ____

2. In presenting the changes in the actuarial present value of accumulated plan benefits, if only the minimum required disclosure is presented and a "statement format" is used, is an additional "other" category used to reconcile the beginning and ending amounts?[5] [SFAS 35, pars. 25 and 26 (AC Pe5.124 and .125); AAG, par. 2.29] ____ ____ ____

Summary of Significant Accounting Policies

A. **Accounting Policies**

1. Is a description of all significant accounting policies of the pension plan presented as either a separate "summary of significant accounting policies" preceding the notes to the financial statements or as the initial note? [APB 22, par. 15 (AC A10.108)] ____ ____ ____

2. Does the disclosure of significant accounting policies identify and describe all significant accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position and results of operations, including instances in which there:

   a. Is a selection from existing acceptable alternatives? ____ ____ ____

   b. Are principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry? ____ ____ ____

   c. Are unusual or innovative applications of GAAP? [APB 22, par. 12 (AC A10.105)] ____ ____ ____

3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)] ____ ____ ____

4. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included? [SOP 94-6, par. 11] ____ ____ ____

5. Does the disclosure of significant accounting policies include a description of the method(s) and significant assumptions used to determine the fair value of investments and the reported value of insurance contracts? [SFAS 35, par. 27a (AC Pe5.126a); AAG, par. 2.30] ____ ____ ____

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[5] If the minimum required disclosure is presented in other than a statement format, the actuarial present value of accumulated plan benefits as of the preceding benefit information date should be presented. [SFAS 35, par. 25 (AC Pe5.124)]

	Yes	No	N/A
6. Does the disclosure of significant accounting policies include a description of the method and significant assumptions (e.g., assumed rates of return, inflation rates, and retirement ages) used to determine the actuarial present value of accumulated plan benefits, including any significant changes in the method or assumptions during the year? [SFAS 35, par. 27b (AC Pe5.126b); AAG, par. 2.30]	____	____	____
7. If administrative expenses expected to be paid by the plan (not those paid by the sponsor) that are associated with providing accumulated plan benefits are reflected by appropriately adjusting the assumed rates of return, is the adjustment of the assumed rates of return disclosed separately? [SFAS 35, par. 20c (AC Pe5.119c)]	____	____	____

B. Certain Significant Estimates

1. If known information available before the financial statements are issued indicates that: (*a*) it is at least reasonably possible that the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events, and (*b*) the effect of the change would be material to the financial statements:

	Yes	No	N/A
a. Is disclosure made of the nature of the uncertainty, including an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?	____	____	____
b. If the estimate involves a loss contingency covered by SFAS 5, does the disclosure include an estimate of the possible range of loss, or state that such an estimate cannot be made?	____	____	____
c. Does the disclosure describe the factors that cause the estimate to be sensitive to change? [SOP 94-6, pars. 13 and 14; AAG, par. 2.46]	____	____	____

Other Financial Statement Disclosures

A. Changes in Accounting

1. For changes in accounting principles, are disclosures made in the year of change as to the:

	Yes	No	N/A
a. Nature of the change?	____	____	____
b. Justification for the change, including a clear explanation of why the newly adopted accounting principle is preferable?	____	____	____
c. Effect on net additions (deductions) to the plan's net assets? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]	____	____	____
2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made? If it is not possible to determine such effect, is the reason for not reporting the cumulative effect of the change or the pro forma amounts of prior years disclosed? [APB 20, pars. 19–22 and 25 (AC A06.115–.118)]	____	____	____

3. For changes in accounting principle that are required to be accounted for by restating prior period financial statements:

	Yes	No	N/A
a. Are all financial statements of prior periods presented restated? [APB 20, par. 27 (AC A06.123)]	____	____	____

	Yes	No	N/A
b. Is the effect on net assets available for benefits for all prior periods presented shown? [APB 20, par. 28 (AC A06.124)]	____	____	____
4. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction?	____	____	____
a. Nature of the error in previously issued financial statements?	____	____	____
b. Effect of its correction on the changes (1) in the actuarial present value of accumulated plan benefits and (2) in the net assets available for benefits? [APB 20, par. 37 (AC A35.105)]	____	____	____
5. For changes in accounting estimates:			
a. If a change in an accounting estimate affects several future periods, is its effect on the change in net assets available for benefits of the current period disclosed? [APB 20, par. 33 (AC A06.132)]	____	____	____
b. If a change in an accounting estimate has no material effect in the period of change but is reasonably certain to materially affect later periods, is the change disclosed in the financial statements of the period of change? [APB 20, par. 38 (AC A06.133)]	____	____	____
6. For a change in reporting entity, such as a merger of two or more plans, are transferred assets reported as a separate line item in the "Statement of Changes in Net Assets," and are the nature of the change and the reason for it disclosed? [APB 20, pars. 34 and 35 (AC A35.112 and .113)]	____	____	____
B. Commitments and Contingencies			
1. Is disclosure made of the nature of estimated loss contingencies accrued when (*a*) information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability incurred at the date of the financial statements and (*b*) the amount of loss can be reasonably estimated? [SFAS 5, par. 9 (AC C59.108)]	____	____	____
2. If necessary to keep the financial statements from being misleading, are the amounts of contingencies accrued as described in Step 1 above disclosed? [SFAS 5, par. 9 (AC C59.108)]	____	____	____
3. For loss contingencies not accrued because one or both of the conditions in Step 1 are not met or if an exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures indicate:			
a. Nature of the contingency?	____	____	____
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, par. 10 (AC C59.109)]	____	____	____
4. Are gain contingencies disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	____	____	____

	Yes	No	N/A
5. Are the nature and amount of any guarantees (e.g., guarantees of indebtedness of others) disclosed even though the possibility of loss may be remote? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1–3 (AC C59.114); EITF 85-20]	____	____	____
6. Is there adequate disclosure of commitments, such as those for capital expenditures, restrictive covenants in financing agreements, and employment contracts? [SFAS 5, pars. 18 and 19 (AC C59.120)]	____	____	____

C. Current Vulnerability Due to Certain Concentrations

1. Is disclosure including information that is adequate to inform users of the general nature of the risk associated with concentrations in the volume of business transacted with a particular customer, supplier, lender, grantor, or contributor; in revenue from particular products, services, or fund-raising events; in the available sources of supply of materials, labor, or services, or licenses or other rights used in the reporting entity's operations; or in the market or geographic area in which the reporting entity conducts its operations made if, based on information known to management before the financial statements are issued, (*a*) the concentration existed at the date of the financial statements, (*b*) made the enterprise vulnerable to the risk of a near-term severe impact, and (*c*) it is at least reasonably possible that the events that could cause the severe impact will occur in the near term? [SOP 94-6, pars. 21 and 22; AAG, par. 2.47]	____	____	____

D. Description of Pension Plan

1. Do disclosures include a brief, general description of the plan agreement, including its vesting and benefit provisions? [SFAS 35, par. 28a (AC Pe5.127a); AAG, par. 2.31*a*; SOP 94-6, par. 10]	____	____	____
2. For ERISA plans, does the plan description include the priority order of participants' claims to the assets of the plan upon plan termination and the benefits guaranteed by the PBGC? [SFAS 35, par. 28c (AC Pe5.127c); AAG, par. 2.31*c*]	____	____	____

Practice Tip

If material providing this information is otherwise published and made available to participants (e.g., employee handbook), the disclosures required by SFAS 35, paragraph 28a and c can be omitted provided that (1) a reference to the other source is made and (2) for paragraph 28c only, disclosure similar to that stated in SFAS 35 is made. Refer to SFAS 35, paragraph 28c, fn. 16 (AC Pe5.127c, fn. 21) for appropriate wording.

E. Description of Pension Plan Amendments

1. Do disclosures include a description of significant plan amendments adopted during the year? [SFAS 35, par. 28b (AC Pe5.127b); AAG, par. 2.31*b*]	____	____	____
2. If significant plan amendments were adopted after the date of the accumulated benefit information, and accordingly their effect was not included in the calculation, is this fact stated? [SFAS 35, par. 28b (AC Pe5.127b); AAG, par. 2.31*b*]	____	____	____

	Yes	*No*	*N/A*
3. For ERISA plans, do the disclosures include a discussion of the benefit priority and PBGC coverage in the event of plan termination to any recent plan amendments? [SFAS 35, par. 28c (AC Pe5.127c); AAG, par. 2.31*c*]	____	____	____

Practice Tip

If material providing this information is otherwise published and made available to participants (e.g., employee handbook), the disclosure required by SFAS 35, paragraph 28c can be omitted provided that (1) a reference to the other source is made and (2) disclosure similar to that stated in SFAS 35 is made. Refer to SFAS 35, par. 28c, fn. 16 (AC Pe5.127c, fn. 21) for appropriate wording.

F. Financial Instruments

Practice Tip

In April 2003, the FASB issued SFAS 149, *Amendment of Statement 133 on Derivative Investments and Hedging Activities*. SFAS 149 amends SFAS 133 to say that a contract that is accounted for under either paragraph 4 of SFAS 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts*, or paragraph 12 of SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended, is not subject to SFAS 133. Similarly, a contract that is accounted for under either paragraph 4 or paragraph 5 of SOP 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, is not subject to SFAS 133. Those exceptions apply only to the party that accounts for the contract under SFAS 35, SFAS 110, or SOP 94-4. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions as described in SFAS 149, and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively.

Derivative Instruments and Hedging Activities

1. If a plan holds or issues derivative instruments (or non-derivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS 133, as amended) has disclosure been made of its objectives for holding or issuing those instruments, the context needed to understand those objectives, and its strategies for achieving those objectives?	____	____	____
2. Does the description distinguish between derivative instruments (and non-derivative instruments) designated as fair value hedging instruments, derivative instruments (and non-derivative instruments) designated as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, and all other derivatives?	____	____	____
3. Does the description also indicate the plan's risk management policy for each of those types of hedges, including a description of the items or transactions for which risks are hedged?	____	____	____
4. For derivative instruments not designated as hedging instruments, does the description indicate the purpose of the derivative activity?	____	____	____
5. Qualitative disclosures about a plan's objectives and strategies for using derivative instruments may be more meaningful if such objectives and strategies are described in the context of a plan's overall risk management profile. If appropriate, a plan is **encouraged, but not required,** to provide such additional qualitative disclosures. Have such disclosures been made? [SFAS 133, par. 44 (AC D50)]	____	____	____
6. For every reporting period for which a complete set of financial statements is presented, has the plan disclosed the following:			

	Yes	No	N/A

Fair Value Hedges

a. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains and losses under SFAS 52, *Foreign Currency Translation*, that have not been designated and have qualified as fair value hedging instruments and for the related hedged items:

(1) The net gain or loss recognized in the investment income during the reporting period representing (*a*) the amount of the hedges' ineffectiveness and (*b*) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of changes in net assets available for benefits? ____ ____ ____

(2) The amount of net gain or loss recognized in investment income when a hedged firm commitment no longer qualifies as a fair value hedge? ____ ____ ____
[SFAS 133, par. 45a (AC D50.142)]

Hedges of the Net Investment in a Foreign Operation

b. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains and losses under SFAS 52, that have been designated and have qualified as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, the net amount of gains or losses included in the cumulative translation adjustment during the reporting period? ____ ____ ____
[SFAS 133, par. 45c (AC D50.142)]

7. The quantitative disclosures about derivative instruments may be more useful, and less likely to be perceived to be out of context or otherwise misunderstood, if similar information is disclosed about other financial instruments or non-financial assets and liabilities to which the derivative instruments are related by activity. Accordingly, in such situations, has the plan presented a more complete picture of its activities by disclosing that information? (**Encouraged, but not required.**) ____ ____ ____
[SFAS 133, par. 45 (AC D50.142)]

Practice Tip

SFAS 126, *Exemption from Certain Required Disclosures about Financial Instruments for Certain Non-public Entities*, makes the disclosure about fair values of financial instruments prescribed in SFAS 107 optional for entities that:

- Are nonpublic entities,
- Have total assets of less than $100 million on the date of the financial statements, and
- Have no instrument that, in whole or in part, is accounted for as a derivative instrument under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, during the reporting period.

Disclosures About Fair Value of Financial Instruments

8. Have the disclosure requirements of paragraphs 10–14 of SFAS 107, as amended, been followed for financial instruments of the plan? ____ ____ ____
[SFAS 107, pars. 10–14 (AC F25.115C–115F and 115J); AAG, pars. 2.34–2.35]

	Yes	No	N/A
Disclosure About Concentrations of Credit Risk of All Financial Instruments			
9. Except as indicated in paragraph 15B[6] of SFAS 107, has the plan disclosed all significant concentrations of credit risk arising from *all* financial instruments, whether from an individual counterparty or groups of counterparties (*Group concentrations* of credit risk exist if a number of counterparties are engaged in similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions)? [SFAS 107, par. 15A; SFAS 133, par. 531d (AC F25)]	___	___	___
10. Has the plan made the following disclosures about each significant concentration:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	___	___	___
b. The maximum amount of loss due to credit risk that, based on the gross fair value of the financial instrument, the plan would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the plan?	___	___	___
c. The plan's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the plan's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?	___	___	___
d. The plan's policy of entering into master netting arrangements to mitigate the credit risk of financial instruments, information about the arrangements to which the plan is a party, and a brief description of the terms of those arrangements, including the extent to which they would reduce the plan's maximum amount of loss due to credit risk? [SFAS 107, par. 15A, as amended; SFAS 133, par. 531d (AC F25; AAG, par. 2.36)]	___	___	___
11. Has the plan disclosed quantitative information[7] about the market risks of financial instruments that is consistent with he way it manages or adjusts those risks? **(Encouraged but not required.)** [SFAS 107, par. 15C, as amended; SFAS 133, par. 531d (AC F25.116C)]	___	___	___

[6] SFAS 107, paragraph 15B provides that these disclosure requirements do not apply to the following financial instruments, whether written or held:

1. Financial instruments of a pension plan, including plan assets, when subject to the accounting and reporting requirements of SFAS 87 (financial instruments of a pension plan, other than the obligations for pension benefits, when subject to the accounting and reporting requirements of SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*, are subject to the reporting of paragraph 15A).
2. The financial instruments described in paragraphs 8(a), 8(c), and 8(f) of SFAS 107, as amended by SFAS 112, *Employers' Accounting for Post-Employment Benefits*, SFAS 123, *Accounting for Stock Based Compensation*, and SFAS 125, except for reinsurance receivables and prepaid reinsurance premiums.

[7] Appropriate ways of reporting the quantitative information encouraged will differ for different plans and will likely evolve over time as management approaches and measurement techniques evolve. Possibilities include disclosing (*a*) more details about current positions and perhaps activity during the period, (*b*) the hypothetical effects on comprehensive income (or net assets), or annual income, of several possible changes in market prices, (*c*) a gap analysis of interest rate re-pricing or maturity dates, (*d*) the duration of the financial instruments, or (*e*) the plan's value at risk from derivatives and from other positions at the end of the reporting period and the average value at risk during the year. This list is not exhaustive, and a plan is encouraged to develop other ways of reporting quantitative information.

Yes No N/A

G. Income Tax Status

1. If a favorable letter of determination has not been obtained or maintained, is the federal income tax status of the plan disclosed? [SFAS 35, par. 28f (AC Pe5.127f); AAG, par. 2.31*f*] ___ ___ ___

Practice Tip

Note that reports filed in accordance with the requirements of ERISA must include disclosure of "information concerning whether or not a tax ruling or determination letter has been obtained," which is more than is required by SFAS 35, as amended. [AAG, par. 2.31*f*]

H. Plan Terminations

1. If a decision is made to terminate the plan or a wasting trust or frozen plan, are all relevant circumstances disclosed? [AAG, par. 2.50] ___ ___ ___

2. If a decision is made to terminate the plan before the end of the plan year, have all benefits been determined on a liquidation basis and reported as vested? [AAG, pars. 2.51 and 2.53] ___ ___ ___

3. If a decision is made to terminate the plan after the end of the plan year but before the financial statements have been issued, is this fact disclosed? [SAS 1, sec. 560.05 (AU 560.05); AAG, par. 2.51] ___ ___ ___

I. Related-Party Transactions

1. For related-party transactions, do disclosures include:
   a. The nature of the relationships involved? ___ ___ ___
   b. For each period for which a statement of changes in net assets is presented:
      (1) A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed? ___ ___ ___
      (2) Other information deemed necessary to gain an understanding of the effects of the transactions on the financial statements? ___ ___ ___
      (3) The dollar amount of transactions? ___ ___ ___
      (4) The effects of any changes in the method of establishing the terms from that used in the preceding period? ___ ___ ___
   c. Amounts due from or to related parties as of the date of each "Statement of Net Assets Available for Benefits" presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2–4 (AC R36.102–.104)] ___ ___ ___

2. Is the nature of a controlled relationship disclosed (even if there are no transactions between the entities) if the plan and one or more other entities are under common ownership or management control, and the existence of the control could result in operating results or financial position of the plan being significantly different from those that would have resulted if the plan were autonomous? [SFAS 57, pars. 2–4 (AC R36.102–.104)] ___ ___ ___

	Yes	No	N/A
3. If representations about transactions with related parties are made, do they avoid the implication that the related party transactions were consummated at arm's length, or if such implications are made, can they be substantiated? [SFAS 57, par. 3 (AC R36.103)]	____	____	____
4. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13, par. 29 (AC L10.125)]	____	____	____
5. Do the financial statements include a description of any agreements and transactions with persons known to be parties-in-interest? [AAG, par. 2.31*h* and App. A, par. A.51*c*]	____	____	____

Practice Tip

ERISA defines a party-in-interest generally as any fiduciary or employee of the plan, any person who provides services to the plan, an employer whose employees are covered by the plan, an employee organization whose members are covered by the plan, a person who owns 50 percent or more of such an employer or employee association, or relatives of a person described above. [AAG, par. 11.01 and App. A, par. A.91, fn. 27; ERISA section 3(14)]

J. Subsequent Events

	Yes	No	N/A
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the date of the "Statement of Net Assets Available for Benefits"? [SFAS 5, par. 8 (AC C59.105); SAS 1, sec. 560.03, .04, and .07 (AU 560.03, .04, and .07)]	____	____	____
2. Are subsequent events that provide evidence about conditions that did not exist at the date of the "Statement of Net Assets Available for Benefits," but arose subsequent to that date, adequately disclosed?[8] [SFAS 5, par. 11 (AC C59.112); SAS 1, sec. 560.05–.07, and .09 (AU 560.05–.07, and .09); AAG, pars. 2.31*i* and 2.51]	____	____	____
3. Do disclosures include any unusual or infrequent events or transactions occurring after the latest benefit information date, but before the issuance of the financial statements, that might significantly affect the usefulness of the financial statements in assessing the plan's present and future ability to pay benefits? [SFAS 35, par. 28i (AC Pe5.127i)]	____	____	____
4. For those unusual or infrequent events or transactions identified in Step 3 above, do disclosures include the effects of such events or transactions, if reasonably determinable, or the reasons why such effects are not reasonably determinable? [SFAS 35, par. 28i (AC Pe5.127i)]	____	____	____

K. Transfers and Servicing of Financial Assets and Securitizations

	Yes	No	N/A
1. Is the policy for requiring collateral or other security disclosed if the reporting entity has entered into repurchase agreements or securities lending transactions? [SFAS 140, par. 17a (AC F39.110a)]	____	____	____

[8] Also consider the appropriateness of dual dating the auditor's report for the subsequent event. [SAS 1, sec. 530.05 (AU 530.05)]

	Yes	No	N/A
2. If it is not practicable to estimate the fair value of certain assets obtained or liabilities incurred in transfers of financial assets during the period, are those items and the reasons why it is not practicable to estimate fair value described in the notes to the financial statements? [SFAS 140, par. 17d (AC F39.110b)]	____	____	____
3. For all servicing assets and servicing liabilities are the following disclosures made:			
a. The amounts of servicing assets or liabilities recognized and amortized during the period?	____	____	____
b. The fair value of recognized servicing assets and liabilities for which it is practicable to estimate that value and the method and significant assumptions used to estimate the fair value?	____	____	____
c. The risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with paragraph 63 of SFAS 140?	____	____	____
d. The activity in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and reductions credited to operations, and aggregate direct write-downs charged against the allowances—for each period for which results of operations are presented? [SFAS 140, par. 17e (AC F35.102a)]	____	____	____
4. If the entity has securitized financial assets during any period presented and accounts for that transfer as a sale, are the following items disclosed for each major asset type:			
a. Its accounting policies for initially measuring the retained interests, if any, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?	____	____	____
b. The characteristics of securitizations (a description of the transferor's continuing involvement with the transferred assets, including, but not limited to, servicing, recourse, and restrictions on retained interests) and the gain or loss from sale of financial assets in securitizations?	____	____	____
c. The key assumptions* used in measuring the fair value of retained interests at the time of securitization (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, if applicable)?	____	____	____
d. Cash flows between the securitization SPE and the transferor, unless reported separately elsewhere in the financial statements or notes (including proceeds from new securitizations, proceeds from collections reinvested in revolving-period securitizations, purchases of delinquent or foreclosed loans, servicing fees, and cash flows received on interests retained)?	____	____	____

* If an entity has made multiple securitizations of the same major asset type during a period, it may disclose the range of assumptions.

	Yes	No	N/A
5. If the entity has retained interests in securitized financial assets at the date of the latest statement of financial position presented, are the following items disclosed for each major asset type:			
a. Its accounting policies for subsequently measuring those retained interests, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?	____	____	____
b. The key assumptions used in subsequently measuring the fair value of those interests (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses, if applicable)?	____	____	____
c. A sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests of two or more unfavorable variations from the expected levels for each key assumption that is reported under (b) above independently from any change in another key assumption, and a description of the objectives, methodology, and limitations of the sensitivity analysis or stress test?	____	____	____
d. For the securitized assets and any other financial assets that it manages together with them:*			
(1) The total principal amount outstanding, the portion that has been derecognized, and the portion that continues to be recognized in each category reported in the statement of financial position, at the end of the period?	____	____	____
(2) Delinquencies at the end of the period?	____	____	____
(3) Credit losses, net of recoveries, during the period?	____	____	____

Disclosure of average balances during the period is encouraged, but not required.
[SFAS 140, par. 17f-g (AC F39.110c–d)]

Collateral

	Yes	No	N/A
6. *a.* If the entity has pledged any of its assets as collateral that are not reclassified and separately reported in the statement of financial position pursuant to paragraph 15a of SFAS 140, is the carrying amount and classification of those assets as of the date of the latest statement of financial position presented? [SFAS 140, par. 17a(2) (AC F39.110a)]	____	____	____
b. If the entity has accepted collateral that it is permitted by contract or custom to sell or repledge, is the fair value, as of the date of each statement of financial position presented, of that collateral and of the portion of that collateral that it has sold or repledged disclosed? [SFAS 140, par. 17a(3) (AC F39.110a)]	____	____	____
c. Is information about the sources and uses of that collateral, as of the date of each statement of financial position presented, disclosed? [SFAS 140, par. 17(a)(3) (AC F39.110a)]	____	____	____

* Excluding securitized assets that an entity continues to service but with which it has no other continuing involvement.

	Yes	No	N/A

L. Other Matters

1. Do disclosures include the funding policy of the pension plan and any changes in such policy during the plan year? [SFAS 35, par. 28d (AC Pe5.127d); AAG, par. 2.31*d*] ____ ____ ____

   a. If significant costs of plan administration are being absorbed by the employer, is this fact disclosed? [SFAS 35, par. 28d, fn. 17 (AC Pe5.127d, fn. 22)] ____ ____ ____

   b. For a contributory plan, does the disclosure on funding policy state the method of determining the participants' contributions? [SFAS 35, par. 28d (AC Pe5.127d); AAG, par. 2.31*d*] ____ ____ ____

   c. For ERISA plans, do disclosures include whether the minimum funding requirements of ERISA are met? [SFAS 35, par. 28d (AC Pe5.127d); AAG, par. 2.31*d*] ____ ____ ____

   d. If a minimum funding waiver has been granted by the IRS or if a request for a waiver is pending before the IRS, is this fact disclosed? [SFAS 35, par. 28d (AC Pe5.127d)] ____ ____ ____

   e. Does the plan include a brief description of how contributions are determined pursuant to the actuarial cost method? [SFAS 35, par. 262 (AC Pe5.127d)] (optional) ____ ____ ____

   f. Did the plan disclose information regarding the estimated future impact of the funding policy on an existing difference between the net asset and benefit information? [SFAS 35, par. 263 (AC Pe5.127d)] (optional) ____ ____ ____

2. Do disclosures include the policy regarding the purchase of insurance contracts that are excluded from plan assets and the income from those contracts? [SFAS 35, par. 28e (AC Pe5.127e); AAG, par. 2.31*e*] ____ ____ ____

3. Do disclosures include significant real estate or other transactions in which the plan and any of the following parties are jointly involved: (*a*) the sponsor, (*b*) the employer(s), or (*c*) the employee organization(s)? [See also section I, *Related-Party Transactions*, regarding parties-in-interest] [SFAS 35, par. 28h (AC Pe5.127h); AAG, par. 2.31*h*] ____ ____ ____

ERISA Reporting Requirements

A. Form 5500 Series Report

1. Did plans with 100 or more participants at the beginning of the plan year file an annual report (Form 5500) containing financial statements prepared in accordance with either GAAP or an other comprehensive basis of accounting (OCBOA), such as the cash basis or modified cash basis of accounting, separate schedules, notes (required for a full and fair presentation), and an independent public accountant's report prepared under generally accepted auditing standards? [AAG, par. 13.19 and App. A, par. A.18] ____ ____ ____

	Yes	No	N/A

Practice Tip

DOL regulations permit plans that have between 80 and 120 participants (inclusive) at the beginning of the plan year to complete the Form 5500 in the same category ("large plan" or "small plan") as was filed for the previous year. The Form 5500 is filed with the EBSA in Lawrence, Kansas, in accordance with the instructions to the form. (See FSP section 7000.12–.14 for a discussion about the Form 5500.)

B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Pension Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA

1. If the financial statements of the pension plan are filed under the "alternative method" pursuant to DOL Regulations Sec. 2520.103-1(a)(2), do the disclosures in the financial statements include:

   a. A description of accounting principles and variances from GAAP? ____ ____ ____

   b. A description of the plan, including significant changes in the plan, and the effect of the changes on benefits? ____ ____ ____

   c. The funding policy and changes in the funding policy from the prior year? ____ ____ ____

   d. A description of material lease commitments, and other commitments and contingent liabilities? ____ ____ ____

   e. A description of any agreements and transactions with persons known to be parties-in-interest? ____ ____ ____

   f. A general description of priorities in the event of plan termination? ____ ____ ____

   g. Whether a tax ruling or determination letter has been obtained? ____ ____ ____

   h. An explanation of any differences between the separate financial statements and the financial information required on Form 5500? ____ ____ ____
   [AAG, App. A, pars. A.50*a* and A.51*c*]

Practice Tip

Because ERISA requires 401(h) accounts to be reported as assets of the defined benefit pension plan, and GAAP requires them to be deducted before arriving at the total of net assets available for pension benefits, a reconciliation of the net assets reported in the financial statements to those reported in Form 5500 is required. The reconciliation should be accompanied by a discussion of the 401(h) account, explaining clearly that the assets in the 401(h) account are not available to pay pension benefits. Additionally, any assets held for investment purposes in the 401(h) account should be shown on the Schedule H, line 4i—Schedule of Assets (Held at End of Year) and Schedule H, line 4j—Schedule of Reportable Transactions for the pension plan. [SOP 99-2, par. 14; AAG, par. 2.44]

C. Required Financial Statements and Supporting Schedules

1. For plans filing under either method (statutory or alternative), are the following financial statements included and covered by the auditor's report:

   a. Statement of plan assets and liabilities by category at fair value and in comparative form for the beginning and end of the plan year? ____ ____ ____

   b. Separate or combined statements of plan income and expenses and of changes in net assets? ____ ____ ____
   [AAG, App. A, par. A.51*a*]

	Yes	No	N/A
2. The Form 5500 requires that certain supplemental schedules be attached to the annual Form 5500 filing. The information reported in these schedules has not changed from prior years. However, reporting is standardized in that some of these schedules are required to be reported on Schedule G, Financial Transactions Schedules of Form 5500. Pursuant to DOL regulations, are the following *separate schedules* included with the financial statements of the plan and covered by the auditor's report:			

Practice Tip

The instructions to the Form 5500 provide specific information as to the form and content of the various schedule requirements.

	Yes	No	N/A
a. The Schedule H, line 4i—Schedule of Assets (Held at End of Year). Does the schedule use the format shown here and is it clearly labeled "Schedule H, line 4i—Schedule of Assets (Held at End of Year)?" (If filing under the alternative method, a separate schedule of assets held at plan year-end and a schedule of certain assets acquired and disposed of within the plan year) [AAG, App. A, Exhibit A-1]	____	____	____

(a)	(b) Identity of issue, borrower, lessor or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current value

Practice Tip

Participant loans may be aggregated and presented with a general description of terms and interest rates. In column (d), cost information may be omitted with respect to participant or beneficiary directed transactions under an individual account plan.

	Yes	No	N/A
b. The Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within the Plan Year) (see 2520.103-11). Is the schedule clearly labeled "Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within the Plan Year)" and does it use the following format? [AAG, App. A, Exhibit A-1]	____	____	____

(a) Identity of issue, borrower, lessor or similar party	(b) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(c) Cost of acquisitions	(d) Proceeds of dispositions

Practice Tip

In column (c), cost information may be omitted with respect to participant or beneficiary directed transactions under an individual account plan.

	Yes	No	N/A
c. The Schedule H, line 4j—Schedule of Reportable Transactions. Is this schedule clearly labeled "Schedule H, line 4j—Schedule of Reportable Transactions" and does it use the following format? [AAG, App. A, Exhibit A-1]	____	____	____

	Yes	No	N/A

(a) Identity of party involved	(b) Description of asset (include interest rate and maturity in case of a loan)	(c) Purchase price	(d) Selling price	(e) Lease rental	(f) Expense incurred with transaction	(g) Cost of asset	(h) Current value of asset on transaction date	(i) Net gain or (loss)

Practice Tip

Participant or beneficiary directed transactions under an individual account plan should not be taken into account for purposes of preparing this schedule. The current value of all assets of the plan, including those resulting from participant direction, should be included in determining the 5 percent figure for all other transactions.

d. Are the following schedules reported on Schedule G, *Financial Transactions Schedules,* of the Form 5500:

(1) Schedule G, Part I—Schedule of Loans or Fixed Income Obligations in Default or Classified as Uncollectible? ____ ____ ____

(2) Schedule G, Part II—Schedule of Leases in Default or Classified as Uncollectible? ____ ____ ____

(3) Schedule G, Part III—Nonexempt Transactions? [AAG, App. A, Exhibit A-1] ____ ____ ____

Practice Tip

Plans filing their annual reports under the statutory method are required to report transactions that exceed 3 percent of the fair value of plan assets at the beginning of the year, whereas plans that file pursuant to the alternative method of compliance prescribed in DOL regulations are required to report transactions that exceed 5 percent of the fair value of plan assets at the beginning of the year. For a new plan, the percentage amount applies to the fair value of plan assets at the end of the year. [AAG, App. A, par. A.51, fn. 20]

FSP Section 7300
Auditors' Report Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

AAG =	AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (with conforming changes as of March 1, 2003)
SAS =	AICPA Statement on Auditing Standards
AU =	Reference to section number in AICPA *Professional Standards* (vol. 1)
AR =	Reference to section number in AICPA *Professional Standards* (vol. 2)
DOL =	Department of Labor
CFR =	Code of Federal Regulations

.03 Checklist Questionnaire:

	Yes	*No*	*N/A*
1. Is each financial statement audited, specifically identified in the introductory paragraph of the auditor's report? [SAS 58, par. 6 (AU 508.06)]	____	____	____
2. Do the titles of the financial statements referred to in the introductory paragraph of the auditor's report match the titles of the financial statements presented? [Generally Accepted]	____	____	____
3. Do the dates of the financial statements referred to in the introductory paragraph of the auditor's report match the dates of the financial statements presented? [Generally Accepted]	____	____	____
4. Is the report appropriately addressed? [SAS 58, par. 9 (AU 508.09)]	____	____	____
5. Does the auditor's report include:			
a. A title that includes the word "independent"? [SAS 58, par. 8a (AU 508.08*a*)]	____	____	____
b. A statement that the financial statements identified in the report were audited? [SAS 58, par. 8b (AU 508.08*b*)]	____	____	____
c. A statement that the financial statements are the responsibility of management and that the auditor's responsibility is to express an opinion on the financial statements based on his or her audit? [SAS 58, par. 8c (AU 508.08*c*)]	____	____	____

	Yes	No	N/A
d. A statement that the audit was conducted in accordance with generally accepted auditing standards and an identification of the country of origin of those standards (for example, auditing standards generally accepted in the United States of America or U.S. generally accepted audited standards)? [SAS 58, par. 8d, as amended (AU 508.08*d*)]	____	____	____
e. A statement that those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement? [SAS 58, par. 8e (AU 508.08*e*)]	____	____	____
f. A statement that an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation? [SAS 58, par. 8f (AU 508.08*f*)]	____	____	____
g. A statement that the auditor believes that his or her audit provides a reasonable basis for his or her opinion? [SAS 58, par. 8g (AU 508.08*g*)]	____	____	____
h. An opinion as to whether the financial statements present fairly, in all material respects, the net assets of the plan as of the balance sheet date and the changes in net assets for the period then ended in conformity with accounting principles generally accepted in the United States of America? [SAS 58, par. 8h, as amended by SAS 93 (AU 508.08*h*)]	____	____	____
or			
i. If the plan prepares its financial statements on a comprehensive basis of accounting other than GAAP:			
(1) Does the report include a paragraph that:			
(i) States the basis of presentation and refers to the note to the financial statements that describes the basis?	____	____	____
(ii) States that the basis of presentation is a comprehensive basis of accounting other than generally accepted accounting principles?	____	____	____
(iii) Expresses the auditor's opinion (or disclaims an opinion) on whether the financial statements are presented fairly, in all material respects, in conformity with the basis of accounting described?	____	____	____
(2) If the auditor concludes that the financial statements are not presented fairly on the basis of accounting described or if there has been a limitation on the scope of the audit, does the report:			
(i) Disclose (in an explanatory paragraph preceding the opinion paragraph) all the substantive reasons for that conclusion?	____	____	____
(ii) Include in the opinion paragraph the appropriate modifying language and a reference to such explanatory paragraph(s)? [SAS 62, par. 5d and e (AU 623.05*d* and *e*)]	____	____	____

	Yes	No	N/A
j. The manual or printed signature of the auditor's firm? [SAS 58, par. 8i (AU 508.08*i*)]	____	____	____
k. The date (or dual dates)* of the audit report? [SAS 58, par. 8j (AU 508.08*j*)]	____	____	____

Practice Tip

DOL regulations require the auditor's report to be dated and manually signed and to identify the city and state where issued.

6. If a subsequent event disclosed in the financial statements occurs after completion of field work but before the issuance of the auditor's report, has the need for dual-dating of the report been considered? [SAS 1, sec. 530, pars. 3–5 (AU 530.03–.05)]	____	____	____
7. If the auditor is not independent, is a compilation report indicating the lack of independence issued? [SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]	____	____	____
8. Does the report include appropriate language for the following situations:			
a. Only one basic financial statement is presented and there are no scope limitations? [SAS 58, pars. 33 and 34 (AU 508.33 and .34)]	____	____	____
b. Audited and unaudited financial statements are presented in comparative form? [SAS 26, pars. 14–17 (AU 504.14–.17)]	____	____	____
c. The financial statements of the plan contain supplemental schedules relating to ERISA and DOL Regulations? [AAG, pars. 13.08–13.18]	____	____	____

Practice Tip

The Guide includes additional auditor reports with respect to "financial statements of a trust" and "inadequate procedures to value investments." [AAG, pars. 13.30 and 13.35]

Explanatory Paragraphs

9. If the opinion is based in part on the report of another auditor:			
a. Does the introductory paragraph of the standard report disclose the fact that the opinion is based, in part, on the report of other auditors?	____	____	____
b. Does the opinion paragraph include a reference to the report of the other auditor? [SAS 58, pars. 11a, 12, and 13 (AU 508.11*a*, .12, and .13)]	____	____	____

* If a subsequent event is disclosed, the appropriateness of dual dating the report should be considered. [SAS 1, sec. 530.05 (AU 530.05)]

	Yes	No	N/A
10. If, to prevent the financial statements from being misleading because of unusual circumstances, the financial statements contain a departure from an accounting principle promulgated by a body designated by the AICPA Council to establish such principles, does the report include, in a separate paragraph or paragraphs, the information required by the rule? [SAS 58, pars. 11b and 15 (AU 508.11*b* and .15)]	____	____	____
11. If there is substantial doubt about the entity's ability to continue as a going concern:			
a. Does the report include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion?	____	____	____
b. Is that conclusion expressed through the use of the phrase "substantial doubt about its (the entity's) ability to continue as a going concern" or similar wording that includes the terms substantial doubt and going concern? [SAS 58, par. 11c (AU 508.11*c*); SAS 59, as amended, par. 12 (AU 341.12)]	____	____	____

Practice Tips

During the audit of an employee benefit plan, the auditor may become aware that the plan sponsor may not be able to continue as a going concern. Although the employee benefit plan's going concern assessment is not automatically affected by the plan sponsor's financial adversities, the auditor should address whether those difficulties pose any imminently potential impact on the plan.
[AAG, par. 5.62]

In a going concern paragraph, the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity's ability to continue as a going concern. See SAS 77 for an example. [SAS 59, as amended by SAS 64 and SAS 77, par. 13]

	Yes	No	N/A
12. If there has been a material change between periods in accounting principles or in the method of their application that has a material effect on the comparability of the reporting entity's financial statements:			
a. Does the report include an explanatory paragraph, following the opinion paragraph, that refers to the change?	____	____	____
b. Does the explanatory paragraph identify the nature of the change and refer the reader to the note to the financial statements that discusses the change in detail? [SAS 58, as amended by SAS 79, pars. 11d and 16 (AU 508.11*d* and .16)]	____	____	____
c. If the change in the accounting principle is a change in reporting entity that did not result from a transaction or an event, is an explanatory paragraph included in the auditor's report? (***Note***: A change in the reporting entity resulting from a transaction or event does not require that an explanatory paragraph about consistency be included in the auditor's report.) [SAS 88, par. 8 AU 420.08]	____	____	____

Practice Tip

Changes in the format of presentation of accumulated benefit information or a change in the date as of which such information is presented does not require the auditor to add an explanatory paragraph to his or her report. [AU 9420.64 and .65; AAG, par. 13.24]

13. In an updated report, the opinion is different from the opinion previously expressed on the financial statements of a prior period:

	Yes	No	N/A
a. Does the report include an explanatory paragraph, preceding the opinion paragraph, that discloses all of the substantive reasons for the different opinion?	____	____	____
b. Does the explanatory paragraph disclose:			
(1) The date of the auditor's previous report?	____	____	____
(2) The type of opinion previously expressed?	____	____	____
(3) The circumstances or events that caused the auditor to express a different opinion?	____	____	____
(4) That the auditor's updated opinion on the financial statements of the prior period is different from his or her previous opinion on those statements? [SAS 58, as amended, pars. 11e and 69 (AU 508.11*e* and .69)]	____	____	____
14. If financial statements of a prior period (presented for comparative purposes) have been audited by a predecessor auditor whose report is not presented:			
a. Does the introductory paragraph of the report indicate:			
(1) That the financial statements of the prior period were audited by another auditor?	____	____	____
(2) The date of the predecessor auditor's report?	____	____	____
(3) The type of report issued by the predecessor auditor?	____	____	____
(4) If the report was other than a standard report, the substantive reasons therefor, including a description of the nature of and reasons for the explanatory paragraph added to the predecessor's report or his or her opinion qualification?	____	____	____
b. If the financial statements have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the financial statements of the prior period before restatement? [SAS 58, as amended, pars. 11e and 74 (AU 508.11*e* and .74)]	____	____	____
15. If supplementary information required by the FASB has been omitted, the presentation of such information departs materially from FASB guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubt about whether the supplementary information conforms to FASB guidelines, does the report include an additional paragraph stating that fact? [SAS 58, par. 11g (AU 508.11*g*); SAS 52, par. 8 (AU 558.08)]	____	____	____
16. If other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements, has it been determined whether the financial statements, the auditor's report, or both require revision? [SAS 58, par. 11h (AU 508.11*h*); SAS 8, par. 4 (AU 550.04)]	____	____	____
17. If the auditor decides to emphasize a matter regarding the financial statements in the report, is the explanatory information presented in a separate paragraph that avoids use of phrases such as "with the foregoing (following) explanation"? [SAS 58, pars. 11 and 19, as amended by SAS 79 (AU 508.11 and .19); Interpretation 3 of SAS 1, sec. 410 (AU 9410.18); Interpretation 1 of SAS 57 (AU 9342.03)]	____	____	____

	Yes	No	N/A
18. If the decision has been made to terminate a plan:			
a. Is the auditor's report modified by the addition of an explanatory paragraph that states that the plan is being terminated and that the financial statements (including the benefit information disclosures presented) have been prepared on a liquidation basis? [AAG, par. 13.38]	____	____	____
b. Does the explanatory paragraph state that the plan has changed the basis of accounting used to determine the amounts at which assets, liabilities, and benefit information are presented from the ongoing plan basis to a liquidation basis if the financial statements are presented along with financial statements of a period prior to adoption of a liquidation basis? [AAG, par. 13.38; Interpretation 8 of SAS 58 (AU 9508.35)]	____	____	____

Practice Tip

DOL Regulation section CFR 2520 requires that the auditor separately identify any exceptions to his or her report that are the result of DOL Regulations.

Departures From Unqualified Opinions

	Yes	No	N/A
19. If it has not been possible to conduct the audit in accordance with GAAS or to apply all of the procedures considered necessary in the circumstances, has consideration been given to the need to issue a qualified opinion or to disclaim an opinion? [SAS 58, as amended, par. 22 (AU 508.22)]	____	____	____
20. If a qualified opinion is to be expressed because of a scope limitation:			
a. Are all of the substantive reasons for the qualification disclosed in one or more explanatory paragraphs preceding the opinion paragraph?	____	____	____
b. Does the qualified opinion include the word *except* or *exception* in a phrase such as *except for* or *with the exception of*?	____	____	____
c. Is the situation described and referred to in both the scope and opinion paragraphs?	____	____	____
d. Does the wording in the opinion paragraph indicate that the qualification pertains to the possible effects on the financial statements and not the scope limitation itself? [SAS 58, as amended, pars. 22–27 (AU 508.22–.27)]	____	____	____

Practice Tips

Scope limitations include situations in which the auditor is unable to obtain sufficient evidential matter to support management's assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements. [SAS 58, as amended by SAS 79, par. 31]

If a plan auditor concludes that information about the nature of the services provided by a service organization that are part of the plan's information system, and the service organization's controls over those services, is not available to obtain a sufficient understanding of internal control to plan the audit, it would be considered a scope limitation. [SAS 70, as amended, par. 10]

Consult the Topical Index to the AICPA *Professional Standards* under "Scope of Audit—Limitations" for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.

	Yes	No	N/A
21. If an opinion is disclaimed because of a scope limitation:			
a. Are all of the substantive reasons for the disclaimer stated in a separate paragraph or paragraphs?	____	____	____
b. Does the report state that the scope of the audit was not sufficient to warrant the expression of an opinion?	____	____	____
c. Does the report avoid identifying procedures that were performed?	____	____	____
d. Is the scope paragraph omitted?	____	____	____
e. If there are reservations about fair presentation of the financial statements in conformity with GAAP, are they described in the report? [SAS 58, as amended, par. 63 (AU 508.63)]	____	____	____
22. If the financial statements are materially affected by a departure from GAAP (including inadequate disclosure, inappropriate accounting principles, and unreasonable accounting estimates), has consideration been given to the need to issue a qualified opinion or an adverse opinion?[1] [SAS 58, as amended, par. 35 (AU 508.35)]	____	____	____
23. If a qualified opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons that have led to the conclusion that there is a departure from GAAP disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	____	____	____
b. Does the qualified opinion include the word *except* or *exception* in a phrase such as *except for* or *with the exception of* and a reference to the explanatory paragraph?	____	____	____
c. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so? [SAS 58, as amended, pars. 37 and 38 (AU 508.37 and .38)]	____	____	____
24. If an adverse opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons for the adverse opinion disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	____	____	____
b. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so?	____	____	____
c. State that the financial statements do not present fairly the net assets available for benefits or changes in net assets in conformity with GAAP? [SAS 58, as amended, pars. 58 and 59 (AU 508.58 and .59)]	____	____	____

[1] The auditor should express a qualified or an adverse opinion if the auditor concludes that (*a*) a matter involving a risk or an uncertainty is not adequately disclosed, (*b*) the accounting principles used cause the financial statements to be materially misstated when the inability to make a reasonable estimate raises questions about the appropriateness of the accounting principles used, and (*c*) management's estimate is unreasonable and that its effect is to cause the financial statements to be materially misstated. [SAS 58, as amended, pars. 46–49 (AU 508.46–.49)]

	Yes	No	N/A
25. If a limited scope audit is performed pursuant to DOL Regulations 29 CFR section 2520.103-8, is a disclaimer of opinion expressed? [AAG, pars. 13.25–13.29]	____	____	____

Practice Tip

Consult the Topical Index to the AICPA *Professional Standards* under "Departures from Established Principles," "Adverse Opinions," and "Qualified Opinions" for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.

	Yes	No	N/A
26. If information accompanies the basic financial statements and auditor's report in an auditor-submitted document, does the report on the accompanying information:			
a. State that the audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole?	____	____	____
b. Specifically identify the accompanying information?	____	____	____
c. State that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?	____	____	____
d. State whether the accompanying information was subjected to the auditing procedures applied in the audit of the basic financial statements and includes the appropriate expression of opinion or disclaimer? [SAS 29, pars. 6–11 (AU 551.06–.11)]	____	____	____
e. State that the supplemental schedules are the responsibility of the plan's management? (***Recommended but not a required disclosure.***) [AAG, par. 13.10]	____	____	____

Practice Tip

Step 26 above does not apply to limited-scope audits pursuant to DOL Regulations 29 CFR section 2520.103-8. In these situations, see Step 25 above and AAG, paragraph 13.25.

	Yes	No	N/A
27. Auditor's report requirements under DOL regulations:			
a. Is the auditor's report dated and manually signed?	____	____	____
b. Does it indicate the city and state where issued?	____	____	____
c. Does it identify the statements and schedules covered? [AAG, App. A, par. A.50*a*, fn. 18]	____	____	____
d. Does it disclose any omitted auditing procedures deemed necessary by the auditor and the reasons for their omission?	____	____	____
e. State clearly the auditor's opinion of the financial statements and schedules covered by the report and the accounting principles and practices reflected therein?	____	____	____
f. State clearly the consistency of the application of the accounting principles between the current year and the preceding year or as to any changes in such principles which have a material effect on the financial statements? [AAG, App. A, par. A.50*a*; DOL Regulations, sec. 29 CFR 2520]	____	____	____

	Yes	*No*	*N/A*
g. State clearly any matters to which the auditor takes exception, the exception, and to the extent practical, the effect of such matters on the related financial statements? [29 CFR 2520.103–1(iv)]	____	____	____
(1) Are the exceptions, if any, further identified as (*a*) those that are the result of DOL regulations, and (*b*) all others? [AAG, App. A, par. A.50*a*.; DOL Regulations, sec. 29 CFR 2520]	____	____	____

Practice Tip

SAS 87, *Restricting the Use of an Auditor's Report*, provides guidance to auditors in determining whether an engagement requires a restricted-use report and, if so, what elements to include in that report.

FSP Section 7400

Illustrative Financial Statements and Auditor's Reports

.01 This section contains illustrations of the following auditor's reports:

- Defined benefit plan assuming end-of-year benefit information date
- Defined benefit plan assuming beginning-of-year benefit information date
- Defined benefit plan—limited-scope audit

.02 This section also illustrates certain applications of the provisions of chapter 2 of the Audit and Accounting Guide *Audits of Employee Benefit Plans* (the Guide), and SOP 99-2, *Accounting and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans,* that apply for the annual financial statements of the hypothetical pension plan, *C&H Company Pension Plan.* It does not illustrate other provisions of chapter 2 of the Guide that might apply in circumstances other than those assumed in this example. The format presented and the wording of accompanying notes are only illustrative and are not necessarily the only possible presentations. The illustrative financial statements have not been revised to reflect the provisions of SFAS 133, as amended.

.03 Although generally accepted accounting principles (GAAP) do not require comparative financial statements, ERISA requires a comparative statement of net assets available for benefits. The illustrative financial statements are intended to comply with the ERISA requirements for comparative statements.

.04 ERISA and DOL regulations require that certain information be included in supplemental schedules, which are not required under GAAP, and reported on by the independent auditor.

.05

Illustration of Auditors' Report on Financial Statements of a Defined Benefit Plan Assuming End-of-Year Benefit Information Date

Independent Auditors' Report

[Addressee]

We have audited the accompanying statements of net assets available for benefits and of accumulated plan benefits of XYZ Pension Plan as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits and of changes in accumulated plan benefits for the year ended December 31, 20X2. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of December 31, 20X2 and 20X1, and the changes in its financial status for the year ended December 31, 20X2, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.[1]

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG, pars. 13.04, 13.10, and 13.11]

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[1] This paragraph on the supplemental schedules required by ERISA and DOL regulations may also be shown separately in the auditor-submitted document.

.06

Illustration of Auditors' Report on Financial Statements of a Defined Benefit Plan Assuming Beginning-of-Year Benefit Information Date

Independent Auditors' Report

[Addressee]

We have audited the accompanying statements of net assets available for benefits of XYZ Pension Plan as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits for the years then ended and the statement of accumulated plan benefits as of December 31, 20X1, and the related statement of changes in accumulated plan benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the Plan's net assets available for benefits as of December 31, 20X2, and changes therein for the year then ended and its financial status as of December 31, 20X1, and changes therein for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.[2]

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG, pars. 13.05, 13.10, and 13.11]

[2] This paragraph on the supplemental schedules required by ERISA and DOL regulations may also be shown separately in the auditor-submitted document.

.07

Illustration of Auditors' Report on Financial Statements—Limited-Scope Audits Under DOL Regulations

Independent Auditors' Report

[Addressee]

We were engaged to audit the financial statements and supplemental schedules of XYZ Pension Plan as of December 31, 20X1 and 20X0, and for the year ended December 31, 20X1, as listed in the accompanying index. These financial statements and supplemental schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee (or custodian) of the Plan, except for comparing such information with the related information included in the financial statements and supplemental schedules. We have been informed by the plan administrator that the trustee (or custodian) holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee (or custodian) as of December 31, 20X1 and 20X0 and for the year ended December 31, 20X1, that the information provided to the plan administrator by the trustee (or custodian) is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not express an opinion on the accompanying financial statements and supplemental schedules taken as a whole. The form and content of the information included in the financial statements and supplemental schedules, other than that derived from the information certified by the trustee (or custodian) have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG, par. 13.25]

The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated.

.08

C&H COMPANY PENSION PLAN

Statements of Net Assets Available for Benefits

[End-of-year benefit information date]

	December 31,	
	20X1	*20X0*
Assets		
Investments, at fair value (Notes B, E, F, and G):		
Plan interest in C&H Master Trust	$2,250,000	$1,860,000
C&H Company common stock	690,000	880,000
Investment contract with insurance company	1,000,000	890,000
Corporate bonds and debentures	3,500,000	3,670,000
U.S. government securities	350,000	270,000
Mortgages	480,000	460,000
Real estate	270,000	240,000
Total investments	8,540,000	8,270,000
Receivables:		
Employer's contribution	40,000	35,000
Securities sold	310,000	175,000
Accrued interest and dividends	77,000	76,000
Total receivables	427,000	286,000
Cash	200,000	90,000
Total assets	9,167,000	8,646,000
Liabilities		
Due to broker for securities purchased	—	400,000
Accounts payable	70,000	60,000
Accrued expenses	85,000	40,000
Total liabilities	155,000	500,000
Net assets available for benefits	$9,012,000	$8,146,000

The accompanying notes are an integral part of the financial statements.

.09

C&H COMPANY PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

[End-of-year benefit information date]

	Year Ended December 31, 20X1
Investment income	
Net appreciation in fair value of investments (Note E)	$ 278,000
Interest	325,000
Dividends	5,000
	608,000
Less investment expenses	39,000
	569,000
Plan interest in C&H Master Trust investment income (Note F)	129,000
	698,000
Contributions (Note C)	
Employer	780,000
Employees	450,000
	1,230,000
Total additions	1,928,000
Benefits paid directly to participants	740,000
Purchases of annuity contracts (Note G)	257,000
	997,000
Administrative expenses	65,000
Total deductions	1,062,000
Net increase	866,000
Net assets available for benefits	
Beginning of year	8,146,000
End of year	$9,012,000

The accompanying notes are an integral part of the financial statements.

Note: Pursuant to SFAS 102, a statement of cash flows is not required for defined benefit pension plans covered by SFAS 35. However, plans are encouraged to include a statement of cash flows with their annual financial statements when that statement would provide relevant information about the ability of the plan to meet future obligations (e.g., when the plan invests in assets that are not highly liquid). [SFAS 102, par. 5]

.10

C&H COMPANY PENSION PLAN

Statements of Accumulated Plan Benefits

[End-of-year benefit information date]

	December 31, 20X1	December 31, 20X0
Actuarial present value of accumulated plan benefits (Notes B and C)		
Vested benefits:		
Participants currently receiving payments	$3,040,000	$2,950,000
Other participants	8,120,000	6,530,000
	11,160,000	9,480,000
Nonvested benefits	2,720,000	2,400,000
Total actuarial present value of accumulated plan benefits	$13,880,000	$11,880,000

The accompanying notes are an integral part of the financial statements.

.11

C&H COMPANY PENSION PLAN

Statement of Changes in Accumulated Plan Benefits

[End-of-Year benefit information date]

	Year Ended December 31, 20X1
Actuarial present value of accumulated plan benefits at beginning of year	$11,880,000
Increase (decrease) during the year attributable to:	
Plan amendment (Note H)	2,410,000
Change in actuarial assumptions (Note B)	(1,050,500)
Benefits accumulated	895,000
Increase for interest due to the decrease in the discount period (Note B)	742,500
Benefits paid	(997,000)
Net increase	2,000,000
Actuarial present value of accumulated plan benefits at end of year	$13,880,000

The accompanying notes are an integral part of the financial statements.

.12

C&H COMPANY PENSION PLAN

Notes to Financial Statements

A. Description of Plan

The following brief description of the C&H Company Pension Plan (*Plan*) is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

1. *General.* The Plan is a defined benefit pension plan covering substantially all employees of C&H Company (*Company*). It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (*ERISA*).

2. *Pension Benefits.* Employees with 5 or more years of service are entitled to annual pension benefits beginning at normal retirement age (65) equal to 1½% of their final 5-year average annual compensation for each year of service. The Plan permits early retirement at ages 55–64. Employees may elect to receive their pension benefits in the form of a joint and survivor annuity. If employees terminate before rendering 5 years of service, they forfeit the right to receive the portion of their accumulated plan benefits attributable to the Company's contributions. Employees may elect to receive the value of their accumulated plan benefits as a lump-sum distribution upon retirement or termination, or they may elect to receive their benefits as a life annuity payable monthly from retirement. For each employee electing a life annuity, payments will not be less than the greater of (a) the employee's accumulated contributions plus interest or (b) an annuity for five years.

3. *Death and Disability Benefits.* If an active employee dies at age 55 or older, a death benefit equal to the value of the employee's accumulated pension benefits is paid to the employee's beneficiary. Active employees who become totally disabled receive annual disability benefits that are equal to the normal retirement benefits they have accumulated as of the time they become disabled. Disability benefits are paid until normal retirement age at which time disabled participants begin receiving normal retirement benefits computed as though they had been employed to normal retirement age with their annual compensation remaining the same as at the time they became disabled.

B. Summary of Accounting Policies

The following are the significant accounting policies followed by the Plan:

1. *Basis of Accounting.* The accompanying financial statements are prepared on the accrual basis of accounting.

2. *Use of Estimates.* The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, disclosure of contingent assets and liabilities, and the actuarial present value of accumulated plan benefits at the date of the financial statements. Actual results could differ from those estimates.

3. *Investment Valuation and Income Regulation.* If available, quoted market prices are used to value investments.

   The amounts shown in Note E for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at that fair market value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount. If a quoted market price for unrestricted common stock of the issuer is not available, restricted common stocks are valued at a multiple of current earnings less an appropriate discount. The multiple chosen is consistent with multiples of similar companies based on current market prices.

Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar investments. The fair value of real estate investments, principally rental property subject to long-term leases, has been estimated on the basis of future rental receipts and estimated residual values discounted at interest rates commensurate with the risks involved. The fair value of the Plan's interest in the C&H Master Trust (Master Trust) is based on the beginning of year value of the Plan's interest in the trust plus actual contributions and allocated investment income, less actual distributions and allocated administrative expenses (Note F). Quoted market prices are used to value investments in the Master Trust.

The Plan's investment contract with the National Insurance Company (National) (Note G) is valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations. Funds under the investment contract that have been allocated and applied to purchase annuities (that is, National is obligated to pay the related pension benefits) are excluded from the Plan's assets.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

4. *Actuarial Present Value of Accumulated Plan Benefits.* Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (*a*) retired or terminated employees or their beneficiaries, (*b*) beneficiaries of employees who have died, and (*c*) present employees or their beneficiaries. Benefits under the Plan are based on employees' compensation during their last five years of credited service.

   The accumulated plan benefits for active employees are based on their average compensation during the five years ending on the date as of which the benefit information is presented (the *valuation date*). Benefits payable under all circumstances—retirement, death, disability, and termination of employment—are included, to the extent they are deemed attributable to employee service rendered to the valuation date. Benefits to be provided via annuity contracts excluded from plan assets are excluded from accumulated Plan benefits.

   The actuarial present value of accumulated plan benefits is determined by an actuary from the AAA Company and is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of December 31, 20X1 and 20X0 were (*a*) life expectancy of participants (the 20X1 Group Annuity Mortality Table was used), (*b*) retirement age assumptions (the assumed average retirement age was 60), and (*c*) investment return. The 20X1 and 20X0 valuations included assumed average rates of return of 7% and 6.25%, respectively, including a reduction of .2% to reflect anticipated administrative expenses associated with providing benefits. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

5. *Payment of Benefits.* Benefit payments to participants are recorded upon distribution.

C. Funding Policy

As a condition of participation, employees are required to contribute 3% of their salary to the Plan. Present employees' accumulated contributions at December 31, 20X1 and 20X0 were $2,575,000 and $2,325,000, respectively, including interest credited at an interest rate of 5% compounded annually. The Company's funding policy is to make annual contributions to the Plan in amounts that are estimated to remain a constant percentage of employees' compensation each year (approximately 5% for 20X1), such that, when combined with employees' contributions, all employees' benefits will be fully provided for by the time they retire. Beginning in 20X2, the Company's contribution is expected to increase to approximately 6% to provide for the increase in benefits attributable to the Plan amendment effective July 1, 20X1 (Note H). The Company's contributions for 20X1 exceeded the minimum funding requirements of ERISA.

Although it has not expressed any intention to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA.

D. Plan Termination

In the event the Plan terminates, the net assets of the Plan will be allocated, as prescribed by ERISA and its related regulations, generally to provide the following benefits in the order indicated:

a. Benefits attributable to employee contributions, taking into account those paid out before termination.

b. Annuity benefits that former employees or their beneficiaries have been receiving for at least three years, or that employees eligible to retire for that three-year period would have been receiving if they had retired with benefits in the normal form of annuity under the Plan. The priority amount is limited to the lowest benefit that was payable (or would have been payable) during those three years. The amount is further limited to the lowest benefit that would be payable under Plan provisions in effect at any time during the five years preceding Plan termination.

c. Other vested benefits insured by the Pension Benefit Guaranty Corporation (*PBGC*) up to the applicable limitations (discussed below).

d. All other vested benefits (that is, vested benefits not insured by the PBGC).

e. All nonvested benefits.

Benefits to be provided via contracts under which National (Note G) is obligated to pay the benefits would be excluded for allocation purposes.

Certain benefits under the Plan are insured by the PBGC if the Plan terminates. Generally, the PBGC guarantees most vested normal age retirement benefits, early retirement benefits, and certain disability and survivor's pensions. However, the PBGC does not guarantee all types of benefits under the Plan, and the amount of benefit protection is subject to certain limitations. Vested benefits under the Plan are guaranteed at the level in effect on the date of the Plan's termination. However, there is a statutory ceiling, which is adjusted periodically, on the amount of an individual's monthly benefit that the PBGC guarantees. For Plan terminations occurring during 20X2, that ceiling is $X,XXX per month. That ceiling applies to those pensioners who elect to receive their benefits in the form of a single-life annuity and are at least 65 years old at the time of retirement or plan termination (whichever comes later). For younger annuitants or for those who elect to receive their benefits in some form more valuable than a single-life annuity, the corresponding ceilings are actuarially adjusted downward. Benefit improvements attributable to the Plan amendment effective July 1, 20X1 (Note H) may not be fully guaranteed even though total benefit entitlements fall below the aforementioned ceilings. For example, none of the improvement would be guaranteed if the Plan were to terminate before July 1, 20X2. After that date, the PBGC would guarantee 20% of any benefit improvements that resulted in benefits below the ceiling, with an additional 20% guaranteed each year the Plan continued beyond July 1, 20X2. If the amount of the benefit increase below the ceiling is also less than $100, $20 of the increase (rather than 20%) becomes guaranteed by the PBGC each year following the effective date of the amendment. As a result, only the primary ceiling would be applicable after July 1, 20X6.

Whether all participants receive their benefits should the Plan terminate at some future time will depend on the sufficiency, at that time, of the Plan's net assets to provide for accumulated benefit obligations, and may also depend on the financial condition of the Plan sponsor and the level of benefits guaranteed by the PBGC.

E. Investments

The following table presents the fair value of investments. Investments that represent 5% or more of the Plan's net assets are separately identified.

	December 31, 20X1	*December 31, 20X0*
Investments at Fair Value as Determined by Quoted Market Price		
C&H Company common stock, 25,000 shares	$ 690,000	$ 880,000
U.S. government securities	350,000	270,000
Corporate bonds and debentures	3,000,000	3,670,000
	4,040,000	4,820,000
Investments at Estimated Fair Value		
Plan interest in C&H Master Trust	2,250,000	1,860,000
Investment contract with National Insurance Company #8041A, 8.0% (Note G)	1,000,000	890,000
Corporate bonds and debentures	500,000	—
Mortgages	480,000	460,000
Real estate	270,000	240,000
	4,500,000	3,450,000
	$8,540,000	$8,270,000

During 20X1, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by $278,000 as follows:

Net Appreciation (Depreciation) in Fair Value

	Year Ended December 31, 20X1
Investments at Fair Value as Determined by Quoted Market Price	
C&H Company common stock	$208,000
U.S. government securities	20,000
Corporate bonds	10,000
	238,000
Investments at Estimated Fair Value	
Investment contract with insurance company	40,000
Corporate bonds and debentures	(50,000)
Mortgages	100,000
Real estate	(50,000)
	40,000
	$278,000

F. Interest in C&H Master Trust

A portion of the Plan's investments are in the Master Trust which was established for the investment of assets of the Plan and several other C&H Company sponsored retirement plans. Each participating retirement plan has an undivided interest in the Master Trust. The assets of the Master Trust are held by GLC Trust Company (Trustee). At December 31, 20X1 and 20X0, the Plan's interest in the net assets of the Master Trust was approximately 9% and 11%, respectively. Investment income and administrative expenses relating to the Master Trust are allocated to the individual plans based upon average monthly balances invested by each plan.

The following table presents the fair values of investments for the Master Trust.

	December 31,	
	20X1	*20X0*
Investments at fair value:		
Common stocks	$11,900,000	$ 8,800,000
Corporate bonds	11,800,000	6,700,000
U.S. government securities	867,000	750,000
	$24,567,000	$16,250,000

Investment income for the Master Trust is as follows:

	Year Ended December 31,
	20X1
Investment income:	
Net appreciation in fair value of investments:	
Common stocks	$ 300,000
Corporate bonds	200,000
U.S. government securities	300,000
	800,000
Interest	400,000
Dividends	230,000
	$1,430,000

G. Contract With Insurance Company

In 19W8, the Company entered into an investment contract with the National Insurance Company under which the Plan deposits a minimum of $100,000 a year. National maintains the contributions in an unallocated fund to which it adds interest at a rate of 8%. The interest rate is guaranteed through 20X3 but is subject to change for each succeeding five-year period. When changed, the new rate applies only to funds deposited from the date of change. At the direction of the Plan's administrator, a single premium to buy an annuity for a retiring employee is withdrawn by National from the unallocated fund. Purchased annuities are contracts under which National is obligated to pay benefits to named employees or their beneficiaries. The premium rates for such annuities to be purchased in the future and maximum administration expense charges against the fund are also guaranteed by National on a five-year basis.

The annuity contracts provide for periodic dividends at National's discretion on the basis of its experience under the contracts. Such dividends received by the Plan for the year ended December 31, 20X1 were $25,000. In reporting changes in net assets, those dividends have been netted against amounts paid to National for the purchase of annuity contracts.

H. Plan Amendment

Effective July 1, 20X1, the Plan was amended to increase future annual pension benefits from 1¼% to 1½% of final 5-year average annual compensation for each year of service, including service rendered before the effective date. The retroactive effect of the Plan amendment, an increase in the actuarial present value of accumulated plan benefits of $2,410,000, was accounted for in the year ended December 31, 20X1. The actuarial present value of accumulated plan benefits at December 31, 20X0 does not reflect the effect of that Plan amendment. The Plan's actuary estimates that the amendment's retroactive effect on the actuarial present value of accumulated plan benefits at December 31, 20X0 was an increase of approximately $1,750,000, of which approximately $1,300,000 represents an increase in vested benefits.

I. Tax Status

The Internal Revenue Service has determined, and informed the Company by a letter dated June 30, 20XX, that the Plan and related trust are designed in accordance with the applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

Note: Paragraphs .13–.15 illustrate certain applications of the provision of SOP 99-2 that apply for the annual financial statements of a hypothetical defined benefit pension plan that has been amended to include a 401(h) account.

.13

C&H COMPANY PENSION PLAN

Statement of Net Assets Available for Pension Benefits

	December 31,	
	20X1	*20X0*
Assets		
Investments, at fair value (Note A):		
Plan interest in C&H Master Trust	$2,000,000	$1,660,000
C&H Company common stock	600,000	800,000
Investment contract with insurance company	850,000	800,000
Corporate bonds and debentures	3,000,000	3,170,000
U.S. government securities	300,000	200,000
Mortgages	480,000	460,000
Money market fund	270,000	240,000
Total investments	7,500,000	7,330,000
Net assets held in 401(h) account (Note H)	1,072,000	966,000
Receivables:		
Employer's contribution	20,000	10,000
Securities sold	310,000	175,000
Accrued interest and dividends	70,000	70,000
Total receivables	400,000	255,000
Cash	180,000	80,000
Total **assets**	9,152,000	8,631,000
Liabilities		
Due to broker for securities purchased	—	400,000
Accounts payable	70,000	60,000
Accrued expenses	70,000	25,000
Amounts related to obligation of 401(h) account	1,072,000	966,000
Total **liabilities**	1,212,000	1,451,000
Net assets available for pension benefits	$7,940,000	$7,180,000

The accompanying notes are an integral part of the financial statements.

.14

C&H COMPANY PENSION PLAN

Statement of Changes in Net Assets Available for Pension Benefits

	For the Year Ended December 31, 20X1
Investment income:	
Net appreciation in fair value of investments	$ 233,000
Interest	293,000
Dividends	4,000
	530,000
Less investment expenses	30,000
	500,000
Plan interest in C&H Master Trust investment income (Note F)	117,000
	617,000
Contributions (Note C):	
Employer	740,000
Employees	450,000
Total **additions**	1,190,000
	1,807,000
Benefits paid directly to participants	740,000
Purchases of annuity contracts (Note G)	257,000
	997,000
Administrative expenses	50,000
Total **deductions**	1,047,000
Net **increase**	760,000
Net assets available for pension benefits:	
Beginning of year	7,180,000
End of year	$7,940,000

The accompanying notes are an integral part of the financial statements.

.15

Notes to Financial Statements

A. 401 (h) Account

Effective January 1, 20X0, the Plan was amended to include a medical-benefit component in addition to the normal retirement benefits to fund a portion of the postretirement obligations for retirees and their beneficiaries in accordance with **[Section]** 401(h) of the Internal Revenue Code (IRC). A separate account has been established and maintained in the Plan for the net assets related to the **[medical-benefit]** component (401(h) account). In accordance with IRC **[Section]** 401(h), the Plan's investments in the 401(h) account may not be used for, or diverted to, any purpose other than providing health benefits for retirees and their beneficiaries. Any assets transferred to the 401(h) account from the defined benefit pension plan in a qualified transfer of excess pension plan assets (and any income allocable thereto) that are not used during the plan year must be transferred out of the account to the pension plan. The related obligations for health benefits are not included in this Plan's obligations in the statement of accumulated plan benefits but are reflected as obligations in the financial statements of the health and welfare benefit plan. Plan participants do not contribute to the 401(h) account. Employer contributions or qualified transfers to the 401(h) account are determined annually and are at the discretion of the Plan Sponsor. Certain of the Plan's net assets are restricted to fund a portion of postretirement health benefits for retirees and their beneficiaries in accordance with IRC **[Section]** 401(h).

H. Reconciliation of Financial Statements to Form 5500[3]

The following is a reconciliation of net assets available for pension benefits per the financial statements to the Form 5500:

	December 31,	
	20X1	*20X0*
Net assets available for pension benefits per the financial statements	$7,940,000	$7,180,000
Net assets held in 401(h) account included as assets in Form 5500	1,072,000	966,000
Net assets available for benefits per the Form 5500	$9,012,000	$8,146,000

The net assets of the 401(h) account included in Form 5500 are not available to pay pension benefits but can be used only to pay retiree health benefits.

The following is a reconciliation of the changes in net assets per the financial statements to the Form 5500:

	For the Year Ended December 31, 20X1		
	Amounts per Financial Statements	*401(h) Account*	*Amounts per Form 5500*
Net appreciation in fair value of investments	$233,000	$10,800	$243,800
Interest income	293,000	80,200	373,200
Employer contributions	740,000	40,000	780,000
Benefits paid to retirees	740,000	10,000	750,000
Administrative expenses	50,000	15,000	65,000

[3] The reconciliation of amounts reported in the plan's financial statements to amounts reported in Form 5500 is required by ERISA.

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